AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 5, 2001

REGISTRATION NO. 333-68256

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

DIGIRAD CORPORATION

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	3845	33-0145723
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

9350 TRADE PLACE
SAN DIEGO, CALIFORNIA 92126-6334
(858) 578-5300

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

R. SCOTT HUENNEKENS
CHIEF EXECUTIVE OFFICER
DIGIRAD CORPORATION
9350 TRADE PLACE
SAN DIEGO, CALIFORNIA 92126-6334
(858) 578-5300

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

COPIES TO:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of

1933, check the following box. / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION OCTOBER 5, 2001

Shares

[LOGO]

DIGIRAD CORPORATION
Common Stock

This is our initial public offering of shares of our common stock. No public market currently exists for our common stock.

We currently anticipate the initial public offering price to be between $ and $ per share. We have applied to have our common stock approved for quotation on the Nasdaq National Market under the symbol "DRAD."

BEFORE BUYING ANY SHARES, YOU SHOULD READ THE DISCUSSION OF MATERIAL RISKS OF INVESTING IN OUR COMMON STOCK IN "RISK FACTORS" BEGINNING ON PAGE 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PER SHARE TOTAL -----	-----------	-----------	-----------	-----------	-----------	-----------	-----------	--- Public offering price $ $ -	-----------	-----------	-----------

Underwriting discounts and commissions	$	$
- Proceeds, before expenses,		
to us	$	$

The underwriters may also purchase up to shares of common stock from us at the public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus. If the underwriters exercise the option in full, the total underwriting discounts and commissions will be $, and our total proceeds before expenses will be $.

The underwriters are offering the common shares as set forth under "Underwriting." Delivery of the shares will be made on or about , 2001.

UBS WARBURG FIRST UNION SECURITIES, INC.

The date of this prospectus is , 2001.

MIDDLE TOP:

The words "Charting the Future of Nuclear Medicine."

TOP LEFT:
Graphic: Photo of technician working at a wire-bonding machine.

TOP RIGHT:
Graphic: Photo of a DIGIRAD-TM- mobile nuclear imaging services unit with technician standing between a Digirad SPECTour(SM) Chair and a Digirad Imaging acquisition and processing system in front of a van bearing the Digirad Imaging Solutions logo.

CENTER LEFT:
Graphic: Photo showing nuclear imaging procedure being performed on patient using a DIGIRAD-TM- acquisition and processing system and a DIGIRAD SPECTour(SM) Chair.

CENTER RIGHT:
Graphic: Photo of computer screen showing vertical, horizontal and short access fuse of the heart's left ventricle.

BOTTOM RIGHT:
Graphic: Photo of a DIGIRAD-TM- detector module.

BOTTOM MIDDLE:

DIGIRAD LOGO.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with any other information. We are offering to sell, and seeking offers to buy, our common shares only in jurisdictions where these offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of the delivery of this prospectus or of any sale of our common stock.

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Through and including , 2001 (the 25th day after commencement of this offering), federal securities law may require all dealers selling our common stock, whether or not participating in this offering, to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

We have filed applications for federal trademark registrations and claim rights in 2020TC Imager(TM), NOTEBOOK IMAGER(TM), FLEXIMAGING(SM), SPECTour(TM), DIGISPECT(SM), DIGIRAD(TM), DIGIRAD (and design)(TM) and DIGIRAD IMAGING SOLUTIONS(SM). This prospectus may also refer to trade names and trademarks of other companies.

As used in this prospectus, references to "we," "our," "us" and Digirad refer to Digirad Corporation and its subsidiaries, unless the context otherwise requires.

Prospectus summary

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, especially the risks of investing in shares of our common stock, which we discuss under the heading "Risk factors" beginning on page 6, and the financial statements and related notes before making an investment decision.

OVERVIEW

We are the first and only company to have developed and commercialized a solid-state, digital gamma camera. A gamma camera is the preferred technology used in nuclear imaging. Nuclear imaging offers the ability to non-invasively measure physiological activity, including blood flow and organ function. We believe that our technology will allow us to become a leading provider of gamma cameras and mobile nuclear cardiac imaging services. Our patented solid-state camera offers many advantages over a conventional vacuum tube camera, such as smaller size, increased mobility, increased durability, improved image quality, expanded clinical applications and enhanced patient comfort. All other gamma cameras on the market currently use conventional vacuum tube technology. We believe the features and benefits of our technology will encourage healthcare providers to choose our camera over conventional cameras for both initial and replacement purchases. In addition, because of our camera's increased mobility and durability, we believe it is ideally suited for use in a mobile imaging services application that has not been widely available until now. We are initially focusing on the nuclear cardiology segment of the nuclear imaging market, which is the largest and fastest growing segment of that market.

Our proprietary technology allows for both a significant reduction in the size of a gamma camera and a significant improvement in spatial resolution, which is a measurement of the quality of the image produced. Conventional gamma camera photo-detectors are approximately four inches in height. Our photo-detectors are only 0.012 inches high, providing an approximate 350-to-1 reduction in detector size that makes the camera both thinner and lighter. While conventional cameras use an average calculation to approximate the location of the gamma rays used to create the image, our cameras determine the precise location of these gamma rays. This improves spatial resolution and allows our camera to offer a significant improvement in image quality over the conventional vacuum tube technology.

We are currently addressing the rapidly growing nuclear cardiology market in the following two ways:

- NUCLEAR CAMERA SALES--We are selling our camera and related products to physician offices, imaging centers, hospitals and research laboratories, thus providing customers with a technologically advanced alternative to conventional vacuum tube gamma cameras.

- MOBILE NUCLEAR CARDIAC IMAGING SERVICES--We are also providing mobile nuclear imaging services, as described in this prospectus, to physician offices, including cardiology and internal medicine practices. Our turn-key mobile imaging solution provides on-site access to all the benefits of our advanced diagnostic imaging technology, without requiring customers to make an up-front payment, hire additional personnel, obtain regulatory approval or establish a dedicated nuclear imaging suite. Our service model enables physicians to capture the revenue that would have otherwise been lost because the patient was referred elsewhere. In addition, it provides us with a recurring revenue stream from the servicing of our customers on a routine basis.

We began commercial production of our first solid-state, digital gamma camera product, marketed as the DIGIRAD-TM- 2020TC Imager-TM- camera, in January 2000 and shipped our first unit in March 2000. From our first shipment through June 30, 2001, we had received orders for 117 cameras, 59 of which had been shipped. We established our mobile nuclear cardiac imaging services operations in the second half of 2000. As of June 30, 2001, we were providing nuclear cardiac imaging services to approximately 101 physician offices in California, Delaware, Florida, Indiana, Maryland, New Jersey,

North Carolina, Ohio and Pennsylvania. During the six month period ended June 30, 2001, our mobile imaging services business performed approximately 6,900 imaging procedures.

INDUSTRY OVERVIEW

NUCLEAR IMAGING

Nuclear medicine is used primarily in cardiovascular, oncology and neurological applications. Nuclear imaging offers the ability to non-invasively measure varying degrees of physiological activity, including blood flow, organ function, metabolic activity, biochemical activity, and other functional activity within the body. According to a 2001 study by Frost & Sullivan, a leading marketing consulting company, there were approximately 15.5 million nuclear imaging procedures performed in the U.S. in 2000. We believe over 25 million procedures were performed worldwide. The market consists of two primary technologies, gamma cameras and dedicated positron emission tomography, or PET, machines. Frost & Sullivan states that gamma cameras are currently the preferred choice for the majority of nuclear medicine procedures. The most widely used type of gamma

camera is a single photon emission computed tomography, or SPECT, camera.

TRENDS IN NUCLEAR CARDIAC IMAGING

Nuclear cardiology is the largest and fastest growing segment of the nuclear imaging market. Frost & Sullivan reports that of the 15.5 million nuclear imaging procedures performed in the U.S. in 2000, 7.9 million, or 51%, were cardiology related procedures. The nuclear cardiology procedure volume is expected to grow by approximately 25% annually over the next 5 years. Increasingly, a nuclear cardiac imaging procedure is the first non-invasive, diagnostic imaging procedure performed on patients with suspected heart disease. Given the clinical advantages of nuclear cardiac images, many payors are requiring nuclear studies prior to the more invasive and expensive diagnostic and therapeutic procedures.

Reasons for the rapid growth in nuclear cardiac imaging procedures include:

- Valuable clinical information;

- Cost-effectiveness;

- Non-invasive nature;

- Established reimbursement; and

- An increase in heart disease.

Frost & Sullivan divides the nuclear cardiac imaging procedure market into four segments: hospital in-patient, hospital out-patient, cardiology practices and diagnostic imaging centers. Although a number of cardiology practices with more than five cardiologists have incorporated nuclear medicine into their practice setting, most nuclear cardiology procedures are currently referred to hospitals and imaging centers, where the cardiologist loses clinical control and receives minimal or no economic benefit.

DIGIRAD'S MARKET OPPORTUNITY

Our technology allows us to address the following two markets:

- NUCLEAR CAMERA SALES--Frost & Sullivan projects that the U.S. gamma camera market for nuclear imaging will be approximately $325 million in 2001, and is expected to grow at an average annual rate of approximately 5% from 2001 to 2007. We estimate that the non-U.S. gamma camera market is approximately $300 million. In addition, we estimate that the market for technical services is an additional 10% to 15% of a camera's purchase price per year over the life of the contract, which is typically 5 years.

- MOBILE NUCLEAR CARDIAC IMAGING SERVICES--We believe the market opportunity for our mobile nuclear imaging services business is approximately $2.6 billion. This market size is based on our target market of procedures performed in hospital, outpatient facilities, diagnostic imaging centers, physician offices and the following:

    - A report by Frost & Sullivan that approximately 7.9 million nuclear cardiac imaging procedures were performed in the U.S. in 2000;

    - Frost & Sullivan's estimate, based on a more limited study, that approximately 56% of U.S. nuclear cardiac imaging procedures were performed in a hospital outpatient facility, diagnostic imaging center or physician office in 2000; and

    - Our average net revenue of approximately $600 per procedure.

Our proprietary technology enables physicians to perform office-based nuclear imaging procedures that were previously referred elsewhere, with limited disruption to their current practice. Therefore, we believe our solutions will accelerate the transition of nuclear cardiac imaging procedures to non-hospital sites, in particular cardiology and internal medicine practices.

THE DIGIRAD SYSTEM

Our proprietary technology has enabled us to develop a gamma camera with many unique features. Some of the features of the DIGIRAD-TM- solid-state camera are outlined below:

- SMALLER SIZE--Our 425-pound camera and 350-pound SPECTour-TM- chair require only 7 feet by 9 feet of working space vs. a 1,500 to 5,000 pound vacuum tube SPECT camera that requires a dedicated room with reinforced floors;

- INCREASED MOBILITY--The mobility of our camera facilitates our imaging services business as opposed to vacuum tube cameras that are typically permanently installed in hospitals or imaging centers;

- INCREASED DURABILITY--Our camera is relatively insensitive to physical shock or temperature variations and should offer much greater reliability than a vacuum tube camera whose single scintillation crystal is easily damaged;

- IMPROVED IMAGE QUALITY--Images on the perimeter of our detector heads are as clear as images at the center while the best image quality on a vacuum tube camera is obtained only in the center;

- EXPANDED CLINICAL APPLICATIONS--Our smaller and lighter camera heads are more flexible than vacuum tube camera heads and can be used in multiple applications throughout the hospital; and

- ENHANCED PATIENT COMFORT--With our camera, patients sit upright with their arms resting in front of them rather than having to lie and hold their arms above their head as vacuum tube cameras require.

OUR BUSINESS STRATEGY

Our goal is to rapidly expand our business and increase our revenues by offering a complete nuclear imaging solution to physician offices, imaging centers, hospitals and research laboratories. The key elements of our business strategy include:

- Leveraging our proprietary technology to increase sales of products and imaging services;

- Aggressively targeting the growing nuclear cardiology market;

- Expanding our integrated, direct sales force;

- Leveraging our proprietary manufacturing processes to reduce costs and improve performance;

- Expanding acceptance of additional clinical applications; and

- Continuing technological development.

Our principal executive offices are located at 9350 Trade Place, San Diego, CA 92126-6334. Our telephone number is (858) 578-5300. We maintain a web site on the Internet at www.digirad.com. Our web site, and the information contained therein, is not a part of this prospectus.

The offering

Common stock we are offering.....	shares
Common stock to be outstanding after this offering.....	shares
Proposed Nasdaq National Market symbol.....	DRAD
Use of proceeds.....	Repayment of approximately $5.7 million of outstanding debt and general corporate purposes, including product development, marketing, capital expenditures and working capital.
Risk factors.....	Investing in our common stock involves significant risks. See "Risk factors."

The total number of outstanding shares of our common stock includes:

- 4,526,474 shares of our common stock outstanding as of August 23, 2001; and

- 29,748,030 shares of common stock issuable upon the automatic conversion of all shares of preferred stock outstanding as of August 23, 2001 in connection with this offering.

The total number of outstanding shares of our common stock above does not include:

- the issuance of up to 5,952,426 shares of common stock upon the exercise of stock options outstanding as of August 23, 2001 at a weighted average exercise price of $0.64 per share;

- the issuance of up to 603,578 shares of common stock upon the exercise of warrants outstanding as of August 23, 2001 at a weighted average exercise price of $2.59 per share, of which warrants to purchase 65,875 shares will expire if not exercised at the time of this offering and warrants to purchase 60,000 shares will expire if a consulting agreement is terminated before July 31, 2002;

- the issuance of up to 250,000 shares of common stock, as well as additional shares of common stock issuable based upon future earnings results, as additional consideration in connection with our acquisitions of Nuclear Imaging Systems, Inc. and Florida Cardiology and Nuclear Medicine Group;

- the issuance of up to 4,725,883 shares of common stock reserved for future issuance under our stock option plans; and

- the issuance of 10,000 shares of common stock at fair market value for every three of our digital cameras sold by a consultant, up to a maximum of 40,000 shares, and thereafter 1,500 shares of common stock at fair market value for each of our digital cameras sold by the consultant, in each case upon the exercise of warrants issuable to the consultant.

Unless we indicate otherwise, information throughout this prospectus reflects:

- no exercise of the over-allotment option granted to the underwriters;

- the automatic conversion of all outstanding shares of preferred stock into shares of common stock in connection with this offering; and

- a one-for- reverse stock split of our outstanding shares of common stock to be effected in connection with this offering.

Summary financial and operating data

The following table summarizes our financial data and provides selected operating data. The summary financial data for the years ended December 31, 1998, 1999, and 2000, are derived from our audited financial statements. We have also included data from our unaudited financial statements for the six months ended June 30, 2000 and 2001 and as of June 30, 2001. You should read this data together with our financial statements and related notes included elsewhere in this prospectus and the information under "Selected historical financial and operating data" and "Management's discussion and analysis of financial condition and results of operations."

SIX MONTHS ENDED	YEARS ENDED DECEMBER 31,				JUNE 30,
STATEMENT OF OPERATIONS DATA:	1998	1999	2000	2000	2001
(In thousands, except per share and selected operating data)					
Revenues:					
Products	$ 340	$ 284	$ 5,815	$ 1,456	$ 9,802
Imaging services	--	--	1,260	--	4,217
Licensing and other	1,581	--	--	--	--
Total revenues	1,921	284	7,075	1,456	14,019
Cost of revenues:					
Products	388	265	9,834	3,602	6,438
Imaging services	--	--	839	--	3,394
Total cost of revenues	388	265	10,673	3,602	9,832
Gross profit (loss)	1,533	19	(3,598)	(2,146)	4,187
Operating expenses:					
Research and development	5,426	10,063	2,372	1,083	1,327
Sales and marketing	623	1,455	3,586	1,291	4,028
General and administrative	2,533	1,967	2,878	1,072	2,899
Amortization of intangible assets	--	--	209	3	315
Stock-based compensation	--	-			

- 296 -- 1,063 ------- -------- -------- ------- -------
Total operating expenses.....
8,582 13,485 9,341 3,449 9,632 ------- -------- --------
------- ------- Loss from
operations.....
(7,049) (13,466) (12,939) (5,595) (5,445) Other income
(expense), net..... 857 274
(537) (97) (401) ------- -------- -------- ------- -----
-- Net
loss.....
$(6,192) $(13,192) $(13,476) $(5,692) $(5,846) =======
======== ======== ======= ======= Net loss applicable to
common stockholders..... $(6,192) $(13,192)
$(13,524) $(5,692) $(5,902) ======= ======== ========
======= ======= Basic and diluted net loss per share(1):
Historical.....
$ (1.87) $ (3.90) $ (3.61) $ (1.65) $ (1.35) =======
======== ======== ======= ======= Pro
forma..... $
(0.53) $ (0.19) ======== ======= Shares used to compute
basic and diluted net loss per share(1):
Historical.....
3,306 3,381 3,745 3,455 4,366 ======= ======== ========
======= ======= Pro
forma.....
25,474 30,436 ======== ======= SELECTED OPERATING DATA:
Product sales Number of gamma cameras sold to third
parties..... -- -- 23 6 36 Imaging services
Number of imaging procedures
performed..... -- -- * -- 6,953

AS OF JUNE 30, 2001 ----------
---------- PRO FORMA AS BALANCE SHEET DATA: ACTUAL
PRO FORMA(2) ADJUSTED(3) ----------

---------- Cash and cash
equivalents..... $
3,510 $11,920 Working
capital.....
$ 4,504 $12,914 Total
assets.....
$ 28,557 $36,967 Long-term
debt..... $
5,811 $ 5,811 Redeemable convertible preferred
stock..... $ 58,109 $ -- Total
stockholders' equity
(deficit)..... $(48,111) $18,408

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(1) Please see Note 1 to our financial statements for an explanation of the method used to calculate the historical and pro forma net loss per share and the number of shares used in the computation of per share amounts.

(2) The pro forma balance sheet data give effect to the sale of 2,618,462 shares of Series F preferred stock in August 2001 and the automatic conversion of all shares of preferred stock outstanding as of August 23, 2001 into 29,748,030 shares of common stock in connection with this offering.

(3) The pro forma as adjusted balance sheet data give effect to the sale of shares of our common stock in this offering at an assumed initial public offering price of $ per share and the application of the net proceeds to repay a portion of our outstanding indebtedness.

* Not available because the methodology for tracking the number of procedures performed in 2000 under acquired customer contracts was not consistent with our current methodology.

Risk factors

IN ADDITION TO THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS, THE FOLLOWING

RISK FACTORS SHOULD BE CAREFULLY CONSIDERED IN EVALUATING US AND OUR BUSINESS BEFORE PURCHASING ANY OF THE COMMON STOCK BEING OFFERED. INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK AND SHOULD BE REGARDED AS SPECULATIVE. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS COULD BE MATERIALLY HARMED, OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS COULD BE MATERIALLY AND ADVERSELY AFFECTED, AND THE MARKET PRICE OF OUR COMMON STOCK COULD DECLINE AND YOU COULD LOSE ALL OR A PART OF YOUR INVESTMENT. THE CAUTIONARY STATEMENTS MADE IN THIS PROSPECTUS SHOULD BE READ AS BEING APPLICABLE TO ALL RELATED FORWARD-LOOKING STATEMENTS WHEREVER THEY APPEAR IN THIS PROSPECTUS.

RISKS RELATING TO OUR BUSINESS

IF OUR SOLID-STATE, DIGITAL GAMMA CAMERA AND NUCLEAR IMAGING SERVICES ARE NOT ACCEPTED BY PHYSICIANS OR OTHER HEALTHCARE PROVIDERS, WE MAY BE UNABLE TO ACHIEVE PROFITABILITY.

Our solid-state, digital gamma camera technologies represent a new approach in the nuclear imaging market, and we have sold our products only in limited quantities. Our success in this market depends on whether potential customers view our new technology as effective and economically beneficial. We do not know the rate at which physicians or other healthcare providers will adopt our products or imaging services, if at all, or the rate at which they will purchase them in the future, if at all. There can be no assurances that we can attract future customers on acceptable terms that will enable us to develop a sustainable, profitable business. If third-party payors do not accept our products or imaging services or deny adequate payment to physicians and other healthcare providers using our products and services, this may adversely affect acceptance of our products. Acceptance of our products and imaging services by physicians, including physicians who do not currently use cardiac imaging products, is essential to our success and may require us to overcome resistance to a new technology for cardiac imaging services. Our failure to do any of these things may prevent us from selling sufficient quantities of our products and imaging services to be profitable.

WE HAVE RECENTLY INTRODUCED OUR PRODUCT INTO THE MARKETPLACE AND MAY NOT SUCCEED OR BECOME PROFITABLE.

We have not been profitable since our inception. We have incurred substantial costs to develop, introduce and enhance our solid-state, digital gamma camera. As of June 30, 2001, we had an accumulated deficit of approximately $51.0 million. We shipped our first product in March 2000. We expect to incur substantial additional expenses in the future as we continue to conduct research and development efforts on newer generation products and increase sales and marketing efforts on our recently released, first generation products. Furthermore, planned expansion of manufacturing operations and expansion in the nuclear imaging services market will result in significant expenses over the next several years that may not be offset by significant revenues. We expect that a majority of our revenues for the near term and our ability to achieve profitability will depend upon our ability to successfully market our solid-state, digital gamma camera and our successful expansion into the nuclear imaging services market. We will need to begin generating significant revenues to achieve profitability. Due to our limited operating history, it is difficult to predict when, if ever, we will be profitable and to evaluate our business or prospects. Our business strategies, including our expansion in the nuclear imaging services market, may not be successful and we may not be profitable in any future period. Even if we do become profitable, we cannot ensure investors that we can sustain or

increase profitability on a quarterly or annual basis in the future. If our revenues grow more slowly than anticipated, or if our operating expenses exceed our expectations, our business will be adversely affected. You should consider our business and prospects in light of the risks and uncertainties encountered by new technology companies in evaluating whether to invest in our common stock.

WE MAY NOT HAVE THE RESOURCES REQUIRED TO SUCCESSFULLY COMPETE IN OUR HIGHLY COMPETITIVE INDUSTRY, WHICH MAY MAKE IT DIFFICULT TO PENETRATE THE PRODUCT AND SERVICES MARKETS.

The existing market for nuclear imaging products, including cardiac imaging, is well established and intensely competitive. In addition, we are seeking to develop new markets for our solid-state, digital gamma camera products. In particular, we are working aggressively to further develop the mobile cardiac imaging services market. Our failure to diversify our revenue streams by

successfully increasing both product sales and mobile imaging services could cause significant volatility in our overall results. Competitive pressure may make it difficult for us to acquire and retain customers and may require us to reduce the price of our products and imaging services. Our primary competitors have better name recognition, significantly greater financial resources and existing relationships with some of our potential customers, among other competitive advantages. Our competitors may be able to use their existing relationships to discourage customers from purchasing our products and imaging services. We expect competition to increase as potential and existing competitors begin to enter these new markets or modify their existing products and services to compete directly with ours. In addition, our competitors may be able to devote greater resources to the development, promotion and sale of new or existing products and services, thereby allowing them to respond more quickly to new or emerging technologies and changes in customer requirements.

OUR PUBLIC PERCEPTION COULD BE HARMED IF WE EXPERIENCE TECHNICAL PROBLEMS WITH THE NEW TECHNOLOGIES USED IN OUR CAMERAS OR IF SHIPMENTS OF OUR PRODUCTS ARE DELAYED, WHICH WOULD CAUSE US TO LOSE CUSTOMERS AND REVENUES.

Our solid-state, digital gamma camera technologies have only recently been introduced into the marketplace. As these technologies are increasingly used by more customers, significant defects may emerge. In addition, if our cameras are perceived as being difficult to use or causing discomfort to patients, our public image may be impaired. Public perception may also be impaired if we fail to deliver our products in a timely manner due to difficulties with our suppliers and vendors or due to our inability to efficiently manufacture and assemble products. A tarnished reputation could result in a loss of customers and revenues even after any quality or delivery problems are resolved. Additionally, we expect that problems or perceived problems with our products could adversely impact the commercial success of our imaging services business.

WE MAY EXPERIENCE SIGNIFICANT FLUCTUATIONS IN OUR QUARTERLY RESULTS.

Our future operating results will depend on numerous factors, many of which we do not control. Changes in any or all of these factors could cause our operating results to fluctuate and increase the volatility of the market price of our common stock. Some of these factors include:

- demand for our products and our ability to meet such demand;

- product and price competition;

- changes in the costs of components;

- success of our sales and distribution channels;

- successful development and commercialization of new and enhanced products on a timely basis;

- timing of significant orders and shipments;

- timing of and possible delay in our receiving approval for necessary regulatory licenses;

- timing of new product introductions and product enhancements by us or our competitors; and

- timing and magnitude of our expenditures.

Accordingly, we believe that quarterly sales and operating results may vary significantly in the future and that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indicators of future performance. We cannot assure you that our sales will increase or be sustained in future periods or that we will be profitable in any future period.

In addition, we experience seasonality in the service of our DIS customers. For example, our study volumes typically decline from our second fiscal quarter to our third fiscal quarter due to summer holidays and vacation schedules. We may also experience declining study volumes in December due to holidays and in the first quarter due to weather conditions in certain parts of the country. These seasonal factors may lead to fluctuations in our quarterly operating results. It is difficult for us to evaluate the degree to which the summer slowdown, winter holiday variations and weather conditions may make our revenues unpredictable in the future. We may not be able to reduce our expenses, including our debt service obligations, quickly enough to respond to these declines in revenue, which would make our business difficult to operate and would harm our financial results. If this happens, the price of our common stock may decline.

OUR RELIANCE ON A LIMITED NUMBER OF CUSTOMERS MAY CAUSE OUR SALES TO BE VOLATILE.

We currently have a small number of customers, whom we typically bill after the delivery of our products and imaging services. As of June 30, 2001, we had received orders for 117 cameras, 58 of which have not yet been delivered and paid for, and we had signed contracts with 101 customers to use our mobile imaging services. If these orders were to be cancelled, or our imaging service customers stopped using our service or do not renew their service agreements with us, our business would be harmed. Furthermore, in view of this small customer base, our failure to gain additional customers, the loss of any current customers or a significant reduction in the level of imaging services provided to any one customer could harm our business, financial condition and results of operations.

THE SALES CYCLE FOR OUR PRODUCTS IS TYPICALLY LENGTHY, CAUSING SIGNIFICANT FLUCTUATIONS IN OUR REVENUE.

Our sales efforts for our cameras are dependent on the capital expenditures budgets of our potential customers. Often our potential customers require a significant amount of time to plan for major purchases, such as our camera. We may expend substantial funds and management effort long before we actually sell our products and with no assurance that we will ultimately be successful. Even if we are successful in such sales, a long sales cycle makes it more difficult for us to accurately evaluate and predict our sales and operating performance. Our revenues may fluctuate significantly from quarter to quarter and any shortfalls from estimates expected by securities or industry analysts could have an immediate and significant adverse effect on our stock price.

RISK FACTORS

WE CURRENTLY MANUFACTURE OUR PRODUCTS IN LIMITED QUANTITIES AND HAVE LIMITED SALES AND DISTRIBUTION CAPABILITIES.

We currently manufacture our products in limited quantities, and to become profitable, we must manufacture our products in greater quantities. As we expand production, we may encounter difficulties in obtaining adequate supplies of components, additional employees and maintaining the high quality of our products. We may be unable to expand production and accomplish these objectives without incurring substantially increased costs, which may reduce our ability to become profitable or reduce our profitability.

We have established a direct sales team, an independent distributor network in the United States and Canada, and a corporate partner in Japan to sell our products and imaging services both domestically and internationally. Our future revenue growth will depend in large part on our success in maintaining and expanding these sales and distribution channels, which may be an expensive and time-consuming process. We are highly dependent upon the efforts of talented sales employees in increasing our revenue. We face intense competition for qualified sales employees and may be unable to attract and retain such personnel, which would adversely affect our ability to expand and maintain our distribution network. If we are unable to expand and maintain our direct sales team or distribution network, we may be unable to sell enough of our products and imaging services for our business to be profitable.

WE MAY BE HARMED BY HIGHER ENERGY COSTS AND INTERRUPTED POWER SUPPLIES RESULTING FROM THE ELECTRICAL POWER SHORTAGES CURRENTLY AFFECTING CALIFORNIA.

Our corporate headquarters and manufacturing facilities are located in San Diego, California. Electrical power is vital to our operations and we rely on a continuous power supply to conduct our operations. California is in the midst of a power crisis and has recently experienced significant power shortages. In the event of an acute power shortage, the California system operator has on some occasions implemented, and may in the future continue to implement, rolling blackouts throughout California. If our energy costs substantially increase or blackouts interrupt our power supply frequently or for more than a few days, we may have to reduce or temporarily discontinue our normal operations. In addition, the cost of our research and development efforts may increase because of the disruption to our operations. Any such reduction or disruption of our operations at our facilities could harm our business.

WE FACE RISKS IN OUR INTERNATIONAL MARKETS.

As we expand internationally, we will need to hire, train and retain qualified personnel in countries where language, cultural or regulatory impediments may exist. We cannot assure you that vendors, physicians or other involved parties in foreign markets will accept our products, imaging services and business practices. International revenues are subject to inherent risks, including:

- costs of localizing product and service offerings for foreign markets;

- difficulties in staffing and managing foreign operations;

- reduced protection for intellectual property rights in some countries;

- difficulties and delays in accounts receivable collection;

- fluctuating currency exchange rates;

- changes in regulatory requirements;

- burdens of complying with a wide variety of foreign laws and labor practices; and

- conforming our business model to operate under government-run health care systems.

WE MAY BE UNABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, WHICH COULD CAUSE US TO LOSE THOSE RIGHTS OR SUBJECT US TO INCREASED COSTS.

Our success and ability to compete depends on our licensed and internally-developed technology. If we are unable to protect our proprietary rights, we could face increased competition from our competitors or incur increased costs. We protect our proprietary technology through a combination of patent, copyright, trade secret and trademark law. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to, and the distribution of, our products, designs, documentation and other proprietary information. We cannot be sure that our pending patent applications will result in issued patents. In addition, our issued patents or pending applications may be challenged or circumvented by our competitors. Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to obtain and use information or technologies, which we regard as proprietary. Policing unauthorized use of our intellectual property will be difficult and we cannot be certain that we will be able to prevent misappropriation of our technology, particularly in countries where the laws may not protect our proprietary rights as fully as in the United States.

OUR COMPETITORS MAY CLAIM OUR TECHNOLOGY OR PRODUCTS INFRINGE UPON THE TECHNOLOGY COVERED BY THEIR PATENTS OR PATENT APPLICATIONS, WHICH COULD RESULT IN THE LOSS OF OUR RIGHTS, SUBJECT US TO LIABILITY AND DIVERT MANAGEMENT'S ATTENTION.

Many of our competitors in the nuclear imaging business hold issued patents and have filed, or may file, patent applications. Any claims by our competitors that we are infringing their technology, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources, cause product shipment delays, require us to enter into royalty or licensing agreements, prevent us from manufacturing or selling some or all of our products, or result in our liability to one or more of these competitors. If a third party makes a successful claim of patent infringement against us, we may be unable to license the infringed or similar technology on acceptable terms, if at all, which may prevent us from manufacturing or selling our products. If we are forced to enter into license agreements for infringed technology, royalties paid under these agreements may increase our costs to manufacture our products. If we cannot raise the price of our products to recover royalties that we have paid without losing customers, our financial results would be negatively impacted.

WE RELY SIGNIFICANTLY ON THIRD-PARTY VENDORS TO MANUFACTURE COMPONENTS FOR OUR SOLID-STATE, DIGITAL GAMMA CAMERAS, WHICH COULD RESULT IN DELIVERY DELAYS, LOSS OF CUSTOMERS AND LOSS OF REVENUES.

We contract with a limited number of independent suppliers to produce components that we use in the manufacture of our products. Specifically, we currently use one vendor to supply the crystal arrays used in the manufacture of our gamma camera. If this vendor experiences difficulty in the production of the crystal arrays or in meeting our standards, we may have delays in the production of our gamma camera. This vendor could experience financial, operational, production or quality assurance difficulties or a catastrophic event that reduces or interrupts delivery of crystal arrays to us. In addition, to our knowledge, there are only three suppliers in the world who produce these crystal

arrays. While we have established a second vendor source and are evaluating a third source to meet our future requirements, establishing alternative arrangements could take several months. If we are required to switch vendors, the manufacture and delivery of our products could be interrupted for an extended period of time and may cause the loss of both customers and revenue. Deliveries from our current third-party vendor or any substitute vendor may also be delayed because of the potential inability of these vendors to meet high demand for their products from their other customers. We cannot guarantee that alternative suppliers will be able to meet our future requirements or that alternative sources will be available to us at favorable prices, if at all. Our ability to manufacture and deliver products in a timely manner could be harmed if these vendors fail to maintain an adequate supply of these crystal arrays.

OUR PRODUCTS MAY BECOME OBSOLETE, WHICH COULD CAUSE US TO LOSE CUSTOMERS OR INCUR SUBSTANTIAL COSTS.

Our products could become obsolete or unmarketable if other products utilizing new technologies are introduced by our competitors or new industry standards emerge. If we are unable to react to these events we may lose customers and revenues. To be successful, we will need to continually enhance our products and to design, develop and market new products that successfully respond to any competitive developments, all of which may be expensive or time consuming. Our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

LOSS OF KEY EXECUTIVES AND FAILURE TO ATTRACT QUALIFIED MANAGERS, ENGINEERS AND SALES PERSONS COULD LIMIT OUR GROWTH AND NEGATIVELY IMPACT OUR OPERATIONS.

Our future performance is dependent on the efforts of our key technical, sales and managerial personnel and our ability to retain them, particularly R. Scott Huennekens, Gary J.G. Atkinson, Richard L. Conwell, Robert E. Johnson, David M. Sheehan and John F. Sheridan. Furthermore, our future success will depend in part upon our ability to identify, hire and retain additional key management and sales personnel, engineers and technicians. Given the intense competition for such qualified personnel, there can be no assurance that we will be able to continue to attract and retain the personnel necessary to develop our business. Failure to attract and retain key personnel could have an adverse effect on our business, financial condition and results of operations. We do not have any employment agreements with any of our employees. We do not maintain key person insurance on any of our employees.

IF WE BECOME SUBJECT TO PRODUCT LIABILITY OR WARRANTY CLAIMS, WE MAY EXPERIENCE REDUCED DEMAND FOR OUR PRODUCTS OR BE REQUIRED TO PAY DAMAGES THAT EXCEED OUR INSURANCE LIMITATIONS.

The sale and support of our products entails the risk of product liability or warranty claims, such as those based on claims that the failure of one of our products resulted in a misdiagnosis, among other issues. The medical instrument industry in general has been subject to significant products liability litigation. We may incur significant liability in the event of such litigation. Although we maintain product liability insurance, we cannot be sure that this coverage is adequate or that it will continue to be available on acceptable terms, if at all. We also may face warranty exposure, which could adversely affect our operating results. Any unforeseen warranty exposure or insufficient insurance could harm our business, financial condition and results of operations.

RISK FACTORS

WE MAY NOT BE ABLE TO ACHIEVE THE EXPECTED BENEFITS FROM ANY FUTURE ACQUISITIONS WHICH WOULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Although we have no current plans for acquisitions, if we decide to acquire any other business and cannot successfully integrate such future acquisitions, we may not realize anticipated operating advantages and cost savings. The integration of companies that have previously operated separately involves a number of risks, including:

- demands on management related to the increase in our size after an acquisition;
- the diversion of our management's attention from the management of daily operations to the integration of operations;
- difficulties in the assimilation and retention of employees;

- potential adverse effects on operating results; and

- challenges in retaining clients.

Successful integration of operations will depend upon our ability to manage those operations and to eliminate redundant and excess costs. Because of difficulties in combining operations, we may not be able to achieve the cost savings and other related benefits that we would hope to achieve after the completion of these acquisitions which could harm our financial condition and results of operations.

RISKS RELATED TO GOVERNMENT REGULATION

WE MUST BE LICENSED TO HANDLE AND USE HAZARDOUS MATERIALS AND MAY BE LIABLE FOR CONTAMINATION OR OTHER HARM CAUSED BY HAZARDOUS MATERIALS THAT WE USE.

We use hazardous and radioactive materials in our research, development and manufacturing processes and the provision of our imaging services and must be licensed to handle such materials. We are currently licensed in all states in which we operate, and there can be no assurances that we will be able to retain these licenses indefinitely. In addition, we must become licensed in all states in which we plan to expand. Obtaining these additional licenses is an expensive and time consuming process, and in some cases we may not be able to obtain these licenses at all. We are subject to federal, state and local regulation governing the use, handling, storage and disposal of hazardous materials. We cannot completely eliminate the risk of contamination or injury resulting from hazardous materials and we may incur liability as a result of any contamination or injury. We have incurred and may continue to incur expenses related to compliance with environmental laws. Such future expenses or liability could have a significant negative impact on our business, financial condition and results of operations. Further, we cannot assure you that the cost of complying with these laws and regulations will not increase materially in the future.

WE AND OUR CUSTOMERS DEPEND ON PAYMENTS FROM GOVERNMENT HEALTHCARE PROGRAMS AND THIRD-PARTY PAYORS. ANY FUTURE REDUCTION IN THESE PAYMENTS COULD CAUSE US TO LOSE CUSTOMERS AND REVENUES.

We expect that substantially all of our revenues in the foreseeable future will be derived from the sale of products or the providing of imaging services in the nuclear imaging market. Our imaging services model consists of two primary delivery options. Under our first option, which we refer to as "mixed billing," we provide the technical component of nuclear imaging services and bill either the physician or the patient's third party payor, such as Medicare. We also bill the patient for any copayment. The

physician performs and bills for the technical component, such as the interpretation of the test. Under our second option, we lease cameras, related equipment and technical personnel to physicians on a turn-key basis so that they may deliver imaging services to their patients. The physician then bills globally for both the technical and professional component. When we refer to "imaging services" in this prospectus, we are referring both to our mixed billing option and our leasing services option.

Our success in the foreseeable future depends directly upon the financial success of the customers who either buy our cameras or use our imaging services, and their continued demand for our products and imaging services. These customers generally rely on third-party payors, principally federal Medicare, and private health insurance plans, to pay for all or a portion of the cost of imaging procedures. We also rely on these third-party payors for payment of the technical services component provided as part of our Digirad Imaging Solutions imaging services. Some third-party payors, including some state Medicaid programs, currently do not cover our services, and it is possible that other payors will adopt coverage restrictions that adversely affect us in the future. We may be unable to sell our products or imaging services on a profitable basis if third-party payors deny coverage or reduce current levels of payment.

Third-party payors continue to undertake efforts to contain or reduce healthcare costs through various means, including the movement to managed care systems where healthcare providers contract to provide comprehensive healthcare for a fixed fee per patient. These efforts to reduce healthcare costs may make third-party payors unwilling to reimburse patients or healthcare providers for our imaging services or allow only specific providers to provide imaging services, which would reduce demand for our imaging services, and in turn, our products as well. To the extent that such efforts adversely affect the business, financial conditions and profitability of our customers, our customers may be less able to afford our products and our imaging services, which may cause our

sales to decrease.

COMPLIANCE WITH EXTENSIVE PRODUCT REGULATIONS COULD BE EXPENSIVE AND TIME-CONSUMING AND ANY FAILURE TO COMPLY WITH THESE REGULATIONS COULD HARM OUR ABILITY TO SELL AND MARKET OUR PRODUCTS AND IMAGING SERVICES.

U.S. and foreign regulatory agencies, including the United States Food and Drug Administration, or the FDA, and comparable international agencies, govern the testing, marketing and registration of new medical devices or modifications to medical devices, in addition to regulating manufacturing practices, reporting, labeling and record keeping procedures. The regulatory process makes it longer, harder and more costly to bring our products to market, and we cannot assure you that any of our future products will be approved. All of our planned services, products and manufacturing activities, as well as the manufacturing activities of third-party medical device manufacturers who supply components to us, are subject to this regulation. We and such third-party manufacturers are or will be required to:

- undergo rigorous inspections by domestic and international agencies;
- obtain the prior approval of these agencies before we can market and sell our products; and
- satisfy content requirements for all of our sales and promotional materials.

Compliance with the regulations of these agencies may delay or prevent us from introducing new or improved products, which could in turn affect our ability to achieve or maintain a profitable level of sales. We may be subject to sanctions, including monetary fines and criminal penalties, the temporary or permanent suspension of operations, product recalls and marketing restrictions, if we fail to comply with the laws and regulations pertaining to our business. Our third-party component manufacturers may also be subject to the same sanctions and, as a result, may be unable to supply components for our products. Any failure to retain governmental approvals that we currently hold or obtain additional

similar approvals could prevent us from successfully marketing our technology and could harm our operating results. Furthermore, changes in the applicable governmental regulations could prevent further commercialization of our technologies and harm our business.

Even if regulatory approval or clearance of a product is granted, regulatory agencies could impose limitations on uses for which the product may be labeled and promoted. Further, for a marketed product, its manufacturer and manufacturing facilities are subject to periodic review and inspection. Later discovery of problems with a product, manufacturer or facility may result in restrictions on the product, manufacturer or facility, including withdrawal of the product from the market or other enforcement actions.

WE WILL SPEND CONSIDERABLE TIME AND MONEY COMPLYING WITH FEDERAL AND STATE REGULATIONS AND, IF WE ARE UNABLE TO FULLY COMPLY WITH SUCH REGULATIONS, WE COULD FACE SUBSTANTIAL PENALTIES.

We are directly or indirectly through our clients subject to extensive regulation by both the federal government and the states in which we conduct our business. The laws that directly or indirectly affect our ability to operate our business include, but are not limited to, the following:

- the federal Medicare and Medicaid Anti-Kickback Law, which prohibits persons from soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce either the referral of an individual, or furnishing or arranging for a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid Programs;
- the federal False Claims Act, which imposes civil and criminal liability on individuals and entities who submit, or cause to be submitted, false or fraudulent claims for payment to the government;
- the federal Health Insurance Portability and Accountability Act of 1996, which prohibits executing a scheme to defraud any healthcare benefit program, including private payors;
- the federal False Statements Statute, which prohibits knowingly and

willfully falsifying, concealing or covering up a material fact or making any materially false statement in connection with the delivery of or payment for healthcare benefits, items or services;

- the federal physician self-referral prohibition, commonly known as the Stark Law, which, in the absence of a statutory or regulatory exception, prohibits the referral of Medicare or Medicaid patients by a physician to an entity for the provision of certain designated healthcare services, if the physician or a member of the physician's immediate family has an ownership interest in, or a compensation arrangement with, the entity and also prohibits that entity from submitting a bill to a federal payor for services rendered pursuant to a prohibited referral;

- the federal Food, Drug and Cosmetic Act, which regulates the sale, manufacture, administration and prescribing of drugs;

- state law equivalents of the foregoing; and

- state laws that prohibit the practice of medicine by non-physicians and fee-splitting arrangements between physicians and non-physicians.

If our operations are found to be in violation of any of the laws described above or the other governmental regulations to which we or our clients are subject, we may be subject to the applicable penalty associated with the violation, including civil and criminal penalties, damages, fines and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or

restructuring of our operations would adversely affect our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management's attention from the operation of our business and damage our reputation. For a more detailed discussion of the various state and federal regulations to which we are subject see "Business--Government Regulation."

HEALTHCARE REFORM LEGISLATION COULD LIMIT THE PRICES WE CAN CHARGE FOR OUR IMAGING SERVICES, WHICH WOULD REDUCE OUR REVENUES AND HARM OUR OPERATING RESULTS.

In addition to extensive existing government healthcare regulation, there are numerous initiatives at the federal and state levels for comprehensive reforms affecting the payment for and availability of healthcare services, including a number of proposals that would significantly limit reimbursement under the Medicare and Medicaid Programs. It is not clear at this time what proposals, if any, will be adopted or, if adopted, what effect these proposals would have on our business. Aspects of certain of these healthcare proposals, such as reductions in the Medicare and Medicaid Programs and containment of healthcare costs on an interim basis by means that could include a short-term freeze on prices charged by healthcare providers, could limit the demand for our imaging services or affect the revenue per procedure that we can collect, which would harm our business and results of operations.

THE IMPACT OF RECENTLY ENACTED FEDERAL LAWS COULD HAVE A NEGATIVE IMPACT ON CAMERA SALES TO HOSPITALS DESIRING TO USE THE CAMERA IN OUT-PATIENT FACILITIES.

In order for institutional healthcare providers, such as hospitals, to be eligible for cost-based Medicare reimbursement for their out-patient facilities, these facilities must meet specific requirements. If these requirements are met, a facility will be classified as "provider-based" and therefore eligible for cost-based Medicare reimbursement, which is potentially more favorable than other types of Medicare reimbursement. However, recently promulgated federal regulations affect the ability of a Medicare provider to include a facility as provider-based for purposes of Medicare reimbursement. While recent federal legislation offers some relief for facilities previously recognized as provider-based, some of our hospital customers may have difficulty qualifying their out-patient facilities for provider-based status. If a hospital customer cannot obtain provider-based status for their out-patient nuclear imaging

facility and therefore may not be eligible for cost-based Medicare reimbursement, then the provider may not purchase a camera from us.

THE APPLICATION OF STATE CERTIFICATE OF NEED REGULATIONS COULD HARM OUR BUSINESS AND FINANCIAL RESULTS.

Some states currently require, or may require in the future, a certificate of need or similar regulatory approval prior to the acquisition of high-cost capital items including diagnostic imaging systems or provision of diagnostic imaging services by us or our clients. In many cases, a limited number of these certificates are available in a given state. If we or our clients are unable to obtain the applicable certificate or approval or additional certificates or approvals necessary to expand our operations, these regulations may limit or preclude our operations in the relevant jurisdictions.

IF WE FAIL TO COMPLY WITH VARIOUS LICENSURE, OR CERTIFICATION STANDARDS, WE MAY BE SUBJECT TO LOSS OF LICENSURE OR CERTIFICATION, WHICH WOULD ADVERSELY AFFECT OUR OPERATIONS.

All of the states in which we operate require that the imaging technicians that operate our camera be licensed or certified. Obtaining such licenses may take significant time as we expand into additional states. Further, we are currently enrolled by Medicare contractors, or "carriers", as an independent diagnostic testing facility, or IDTF, in five (5) states and are seeking such enrollment by Medicare contractors in additional states. Enrollment is essential for us to receive payment for healthcare services directly from Medicare. There can be no assurances we will be able to maintain such enrollment or that we will be able to gain such enrollment in other states. Any lapse in our licenses or enrollment, or the licensure or certification of our technicians, could increase our costs and adversely affect our operations and financial results.

In the healthcare industry, various types of organizations are accredited to facilitate meeting certain Medicare certification requirements, expedite third-party payment, and fulfill state licensure requirements. Some managed care providers prefer to contract with accredited organizations. Thus far, we have not found it necessary to seek or obtain accreditation from any established accreditation agency. If it becomes necessary for us to do so in the future in order to satisfy the requirements of third party payors or regulatory agencies, there can be no assurances that we will be able to obtain or continuously maintain this accreditation.

RISKS RELATED TO THIS OFFERING

CONCENTRATION OF OWNERSHIP OF OUR COMMON STOCK AMONG OUR EXISTING EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS MAY PREVENT NEW INVESTORS FROM INFLUENCING SIGNIFICANT CORPORATE DECISIONS.

Upon completion of this offering, our executive officers, directors and beneficial owners of 5% or more of our common stock and their affiliates will, in aggregate, beneficially own approximately % of our outstanding common stock or % if the underwriters' over-allotment option is exercised in full. As a result, these persons, acting together, may have the ability to determine the outcome of matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, such persons, acting together, may have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership may harm the market price of our common stock by:

- delaying, deferring or preventing a change in control of our company;
- impeding a merger, consolidation, takeover or other business combination involving our company; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company.

Please see "Principal stockholders" for additional information on concentration of ownership of our common stock.

THERE MAY NOT BE AN ACTIVE, LIQUID TRADING MARKET FOR OUR COMMON STOCK.

We cannot assure you that there will be an active trading market for our common stock following this offering. You may not be able to sell your shares quickly or at the market price if trading in our stock is not active. The initial public offering price was determined by negotiations between us and the representatives of the underwriters based upon a number of factors. The initial public offering price may not be indicative of prices that will prevail in the trading market. Please see "Underwriting" for more information regarding our arrangement with the underwriters and the factors considered in setting the initial public offering price.

OUR STOCK PRICE COULD BE VOLATILE, AND YOUR INVESTMENT COULD SUFFER A DECLINE IN VALUE WHICH MAY PREVENT INVESTORS IN OUR COMMON STOCK FROM SELLING THEIR SHARES ABOVE THE INITIAL PUBLIC OFFERING PRICE.

The trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in price in response to various factors, many of which are beyond our control, including:

- actual or anticipated variations in quarterly operating results;

- announcements of technological innovations by us or our competitors;

- new products or services introduced or announced by us or our competitors;

- changes in financial estimates by securities analysts;

- conditions or trends in the medical device industry and the imaging service industry;

- changes in the market valuations of other similar companies;

- announcements by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

- adverse action by regulatory agencies or changes in law;

- additions or departures of key personnel; and

- sales of our common stock.

In addition, the stock market in general, and the Nasdaq National Market in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of listed companies. Further, there has been particular volatility in the market prices of securities of medical device companies and imaging services companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources, which could seriously harm our business, financial condition and results of operations.

THE LARGE NUMBER OF SHARES ELIGIBLE FOR PUBLIC SALE AFTER THIS OFFERING COULD CAUSE OUR STOCK PRICE TO DECLINE.

Sales of substantial amounts of our common stock in the public market after this offering could seriously harm prevailing market prices for our common stock. These sales might make it difficult or impossible for us to sell additional securities when we need to raise capital. Based upon the number of

shares outstanding at August 23, 2001, upon the closing of this offering, we will have outstanding shares of common stock, assuming no exercise of the underwriters' over-allotment option and no exercise of options or warrants to purchase shares of our common stock. Of these shares, the shares being sold in this offering will be freely tradeable without restriction or further registration under the Securities Act of 1933, unless these shares are purchased by "affiliates" as that term is defined in Rule 144 of the Securities Act of 1933. The remaining shares of our common stock were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act of 1933. These shares may be sold in the public market only if they are registered or if they qualify from an exemption, such as Rule 144 or 701 under the Securities Act of 1933.

Please see "Shares eligible for future sale" for a description of the number of

shares which may be sold by existing stockholders in the future.

INVESTORS IN THIS OFFERING WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION.

The initial public offering price will be substantially higher than the pro forma book value per share of our common stock. Purchasers of common stock in this offering will experience immediate and substantial dilution in the pro forma net tangible book value of their stock of $ per share, assuming an initial public offering price for our common stock of $ per share. This dilution is due in large part to the fact that prior investors paid an average price of $ per share when they purchased their shares of common stock, which is substantially less than the assumed initial public offering price of $ per share.

WE HAVE NOT PAID DIVIDENDS AND DO NOT ANTICIPATE PAYING DIVIDENDS ON OUR COMMON STOCK IN THE FORESEEABLE FUTURE.

We currently anticipate that we will retain all future earnings, if any, to finance the growth and development of our business and do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends will depend upon our financial condition, capital requirements, earnings and other factors deemed relevant by our board of directors. Under the terms of some of our credit agreements, we are restricted from paying cash dividends and making other distributions to our stockholders.

ANTI-TAKEOVER PROVISIONS IN OUR CHARTER DOCUMENTS AND DELAWARE LAW COULD MAKE A THIRD-PARTY ACQUISITION OF US DIFFICULT OR DECREASE THE PRICE INVESTORS MIGHT BE WILLING TO PAY FOR OUR COMMON STOCK IN THE FUTURE.

The anti-takeover provisions in our certificate of incorporation, our bylaws and Delaware law could make it more difficult for a third party to acquire us without approval of our board of directors. As a result of these provisions, we could delay, deter or prevent a takeover attempt or third-party acquisition that our stockholders consider to be in their best interests, including a takeover attempt that results in a premium over the market price for the shares held by our stockholders. Please see "Description of capital stock" for more information on these anti-takeover provisions.

Forward-looking information

This prospectus may contain forward-looking statements relating to our operations and strategy that are based on our current expectations, estimates and projections. Words such as "expect," "intend," "plan," "project," "believe," "estimate" and other similar expressions are used to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Further, any forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. We undertake no obligation to publicly update any forward-looking statement for any reason, even if new information becomes available or other events occur in the future.

A number of important factors could cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include, among others, those set forth in this prospectus under the heading "Risk factors."

Market and industry data and forecasts

This prospectus includes market and industry data and forecasts that we obtained from market research, consultant surveys, publicly available information and industry publications and surveys, and internal company surveys. Reports prepared or published by Frost & Sullivan were the primary sources for third-party industry data and forecasts. Industry surveys, publications, consultant surveys and forecasts generally state they obtain the information contained therein from sources believed to be reliable, but there can be no assurance as to the accuracy and completeness of such information. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Similarly, independent sources have not verified internal company surveys, industry forecasts and market research, which we believe to be reliable based upon management's knowledge of the industry. In addition, we do not know what assumptions regarding general economic growth are used in preparing the forecasts we cite.

Use of proceeds

We expect to receive approximately $ million in net proceeds from the sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, or approximately $ million if the underwriters' over-allotment option is exercised in full, after deducting underwriting discounts and commissions and estimated offering expenses, which we expect to be approximately $ million, or approximately $ million if the underwriters' over-allotment option is exercised in full.

We intend to use approximately $5.7 million of the net proceeds of this offering to repay in full the following outstanding debt or financing obligations:

- approximately $2,500,000, including principal, accrued and unpaid interest and prepayment penalties, under working capital term loans, with interest rates ranging from 13.53% to 14.4%;

- approximately $2,500,000, including principal, accrued and unpaid interest and prepayment penalties, under a line of credit with an interest rate of prime plus 2% (which was 8% at June 30, 2001); and

- approximately $730,000, including principal, accrued and unpaid interest and prepayment penalties, under a line of credit with an interest rate at the greater of prime plus 1.25% or 10.25% (which was 10.25% at June 30, 2001).

The working capital term loans that we are repaying with proceeds from this offering were issued under a loan and security agreement with MMC/GATX Partnership No. 1 dated October 1999, as amended in August 2000 and November 2000, and the proceeds were used to fund expansion of our manufacturing operations. These term loans require monthly amortization and the final payment is due November 2002.

The lines of credit that we are repaying with proceeds from this offering were funded under various loan and security agreements, and the proceeds were used to fund general corporate working capital requirements.

We intend to use the remainder of the net proceeds primarily for general corporate purposes, including product development, marketing, capital expenditures and working capital. We may also use a portion of the proceeds of this offering for acquisitions or investments in complementary businesses. We have no current plans, arrangements or understandings related to any acquisition or investment.

The amounts and timing of any such use may vary significantly depending upon a number of factors, including our revenue growth, asset growth, cash flows and acquisition activities. Pending such uses, the net proceeds of this offering will be invested in short-term, investment-grade, interest-bearing securities. We currently anticipate that the net proceeds to be received by us from this offering and existing cash balances will be sufficient to satisfy our operating cash needs for at least 12 months following the closing of this offering. See "Management's discussion and analysis of financial condition and results of operations--Liquidity and Capital Resources."

Dividend policy

We have never declared or paid any cash dividends on our common stock. We do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent on our financial condition, operating results, capital requirements and other factors that our board deems relevant.

Capitalization

The following table sets forth our capitalization as of June 30, 2001:

- on an actual basis;

- on a pro forma basis to give effect to the issuance of 2,618,462 shares of Series F preferred stock in August 2001 and the automatic conversion of all shares of preferred stock outstanding as of August 23, 2001 into 29,748,030 shares of common stock in connection with this offering; and

- on a pro forma as adjusted basis to give effect to the sale of shares of our common stock in this offering at an assumed initial public offering price of $ per share and the application of the net proceeds to repay a portion of our outstanding indebtedness.

You should read this table together with "Use of proceeds," "Management's discussion and analysis of financial condition and results of operations" and the consolidated financial statements and related notes included elsewhere in

this prospectus.

JUNE 30, 2001		
	PRO FORMA ACTUAL	PRO FORMA AS ADJUSTED (in thousands)
Cash and cash equivalents	$ 3,510	$ 11,920
Total debt: Current portion of long-term debt	5,614	5,614
Long-term debt, net of current portion	5,076	5,076
Notes payable to stockholders	735	735
Redeemable convertible preferred stock: Authorized shares--27,582,646 actual, 10,000,000 pro forma and pro forma as adjusted; Issued and outstanding shares--27,129,568 actual, none pro forma and pro forma as adjusted	58,109	--
Stockholders' equity (deficit): Common Stock: Authorized shares--38,091,807 actual, 250,000,000 pro forma and pro forma as adjusted; Issued and outstanding shares--4,574,603 actual, 34,322,633 pro forma and pro forma as adjusted	5	34
Additional paid-in capital	4,707	71,197
Deferred compensation	(1,713)	(1,713)
Notes receivable from stockholders	(112)	(112)
Accumulated deficit	(50,998)	(50,998)
Total stockholders' equity (deficit)	(48,111)	18,408
Total capitalization	$ 21,423	$ 29,833

The table above does not include:

- the issuance of up to 5,952,426 shares of common stock upon the exercise of stock options outstanding as of August 23, 2001 at a weighted average exercise price of $0.64 per share;

- the issuance of up to 603,578 shares of common stock upon the exercise of warrants outstanding as of August 23, 2001 at a weighted average exercise price of $2.59 per share, of which warrants

to purchase 65,875 shares will expire if not exercised at the time of this offering and warrants to purchase 60,000 shares will expire if a consulting agreement is terminated before July 31, 2002;

- the issuance of up to 250,000 shares of common stock, as well as additional shares of common stock issuable based upon future earnings results, as additional consideration in connection with our acquisitions of Nuclear Imaging Systems, Inc. and Florida Cardiology and Nuclear Medicine Group;

- the issuance of up to 4,725,883 shares of common stock reserved for future issuance under our stock option plans; and

- the issuance of 10,000 shares of common stock at fair market value for every three of our digital cameras sold by a consultant, up to a maximum of 40,000 shares, and thereafter 1,500 shares of common stock at fair market value for each of our digital cameras sold by the consultant, in each case upon the exercise of warrants issuable to the consultant.

Dilution

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering.

Pro forma net tangible book value per share represents the amount of total

tangible assets less total liabilities, divided by the pro forma number of shares of common stock then outstanding. Our pro forma net tangible book value at June 30, 2001, would have been $15.9 million, or $ per share of common stock, after giving effect to the issuance of 2,618,462 shares of Series F preferred stock in August 2001 and the automatic conversion of all shares of preferred stock outstanding as of August 23, 2001 into 29,748,030 shares of common stock in connection with this offering. After giving further effect to the sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma net tangible book value at June 30, 2001, would have been $ million, or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors purchasing common stock in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share.....		$
Pro forma net tangible book value per share before this offering.....	$	
Increase attributable to new investors in this offering...		
Pro forma net tangible book value per share after this offering.....		$
Dilution in pro forma net tangible book value per share to new investors after this offering.....		$

The following table summarizes as of June 30, 2001, on the pro forma basis described above, the total number of shares of common stock purchased from us, the total consideration paid to us, and the average price per share paid by existing stockholders and by new investors purchasing shares of common stock from us in this offering at an assumed initial public offering price of $ per share and before deducting underwriting discounts and commissions and estimated offering expenses:

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders.....	34,322,633	%	$68,071,703	%	$1.98
New investors.....			$		
Total.....		%	$	%	$

If the underwriters exercise their over-allotment option in full, the following will occur:

- our pro forma net tangible book value after the offering will increase $ per share to existing stockholders and our pro forma net tangible book value after the offering will be diluted $ per share to new investors;

- the percentage of shares of our common stock held by existing stockholders will decrease to approximately % of the total number of shares of our common stock outstanding after this offering; and

- the number of shares of our common stock held by new investors will increase to , or approximately % of the total number of shares of our common stock outstanding after this offering.

DILUTION

The tables and calculations above assume no issuance of the following shares described below:

- the issuance of up to 5,952,426 shares of common stock upon the exercise of stock options outstanding as of August 23, 2001 at a weighted average exercise price of $0.64 per share;

- the issuance of up to 603,578 shares of common stock upon the exercise of warrants outstanding as of August 23, 2001 at a weighted average exercise price of $2.59 per share, of which warrants to purchase 65,875 shares will expire if not exercised at the time of this offering and warrants to purchase 60,000 shares will expire if a consulting agreement is terminated before July 31, 2002;

- the issuance of up to 250,000 shares of common stock, as well as additional shares of common stock issuable based upon future earnings results, as additional consideration in connection with our acquisitions of Nuclear Imaging Systems, Inc. and Florida Cardiology and Nuclear Medicine Group;

- the issuance of up to 4,725,883 shares of common stock reserved for future issuance under our stock option plans; and

- the issuance of 10,000 shares of common stock at fair market value for every three of our digital cameras sold by a consultant, up to a maximum of 40,000 shares, and thereafter 1,500 shares of common stock at fair market value for each of our digital cameras sold by the consultant, in each case upon the exercise of warrants issuable to the consultant.

If we assume the exercise of all stock options and warrants outstanding as of August 23, 2001, our pro forma net tangible book value after the offering will increase $ per share to existing stockholders and our pro forma net tangible book value after the offering will be diluted $ per share to new investors.

To the extent that any of the other shares of common stock described above are issued, there will be further dilution to new investors. See "Capitalization," "Management--Benefit Plans," and the notes to our consolidated financial statements included elsewhere in this prospectus for further information.

Selected historical financial and operating data

Our selected statement of operations data for the years ended December 31, 1996 and 1997, and our selected balance sheet data as of December 31, 1996, 1997 and 1998, are derived from our audited consolidated financial statements for such years and as of such dates, which are not included in this prospectus. Our selected statement of operations data for the years ended December 31, 1998, 1999 and 2000 and our selected balance sheet data as of December 31, 1999 and 2000, are derived from our audited financial statements for such years and as of such dates, which are included elsewhere in this prospectus. Our selected statement of operations data for the six month periods ended June 30, 2000 and 2001, and our selected balance sheet data as of June 30, 2001, are derived from our unaudited financial statements for such years and as of such date, which are included elsewhere in this prospectus. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair representation of the financial position and the results of operations for these periods.

Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2001. You should read the data set forth below in conjunction with "Management's discussion and analysis of financial condition and results of operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	YEARS ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
STATEMENT OF OPERATIONS DATA:	1996	1997	1998	1999	2000	2000	2001
	(In thousands, except per share and selected operating data)						
Revenues:							
Products	$ 101	$ 167	$ 340	$ 284	$ 5,815	$ 1,456	$ 9,802
Imaging services	--	--	--	--	1,260	--	4,217
Licensing and other	487	252	1,581	--	--	--	--
Total revenues	588						

419 1,921 284 7,075 1,456 14,019 Cost of revenues: Products..... 687 417 388 265 9,834 3,602 6,438 Imaging services..... -- -- -- -- 839 -- 3,394 ------- ------- ------- ------ -- -------- ------- ------- Total cost of revenues..... 687 417 388 265 10,673 3,602 9,832 ------- ------- ------- -- ------ -------- ------- ------- Gross profit (loss)..... (99) 2 1,533 19 (3,598) (2,146) 4,187 Operating expenses: Research and development..... 1,602 4,073 5,426 10,063 2,372 1,083 1,327 Sales and marketing..... 121 557 623 1,455 3,586 1,291 4,028 General and administrative..... 609 1,198 2,533 1,967 2,878 1,072 2,899 Amortization of intangible assets..... -- -- -- -- 209 3 315 Stock-based compensation..... -- -- -- -- 296 -- 1,063 ------- ------- ------- -------- - ------- ------- ------- Total operating expenses..... 2,332 5,828 8,582 13,485 9,341 3,449 9,632 ------- ------- -- ----- -------- -------- ------- ------- Loss from operations..... (2,431) (5,826) (7,049) (13,466) (12,939) (5,595) (5,445) Other income (expense), net..... (71) (552) 857 274 (537) (97) (401) ------- ------- ------- -------- -------- ------- ------- Net loss..... $(2,502) $(6,378) $(6,192) $(13,192) $(13,476) $(5,692) $(5,846) ======= ======= ======= ======== ======== ======== ======= ======= Net loss applicable to common stockholders..... $(2,502) $(6,378) $(6,192) $(13,192) $(13,524) $(5,692) $(5,902) ======= ======= ======= ======== ======== ======== ======= ======= Basic and diluted net loss per share(1): Historical..... $ (0.77) $ (1.95) $ (1.87) $ (3.90) $ (3.61) $ (1.65) $ (1.35) ======= ======= ======= ======== ======== ======= ======= Pro forma..... $ (0.53) $ (0.19) ======== ======= Shares used to compute basic and diluted net loss per share(1): Historical..... 3,256 3,273 3,306 3,381 3,745 3,455 4,366 ======= ======= ======= ======== ======== ======= ======= Pro forma..... 25,474 30,436 ======== =======

SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

SIX MONTHS ENDED DECEMBER 31,	YEARS ENDED JUNE 30,					
STATEMENT OF OPERATIONS DATA:	1996	1997	1998	1999	2000	2000	2001
	(In thousands, except per share and selected operating data)						
SELECTED OPERATING DATA: Product sales							

Number of gamma cameras sold to third parties.....	- - -- -- -- 23 6 36
Imaging services	
Number of imaging procedures performed.....	-- -- -- -- * -- 6,953

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(1) Please see Note 1 to our financial statements for an explanation of the method used to calculate the historical and pro forma net loss per share and the number of shares used in the computation of per share amounts.

* Not available because the methodology for tracking the number of procedures performed in 2000 under acquired customer contracts was not consistent with our current methodology.

AS OF DECEMBER 31, BALANCE SHEET DATA ----					
------ AS OF 1996	1997	1998	1999	2000	JUNE 30, 2001 (In thousands) ----------
Cash and cash equivalents.....	$ 5,634	$ 19,293	$ 13,680	$ 2,626	$ 6,555	$ 3,510
Working capital.....	$ 5,344	$ 18,382	$ 12,636	$ 801	$ 5,481	$ 4,504
Total assets.....	$ 6,576	$ 20,697	$ 16,365	$ 5,699	$ 23,207	$ 28,557
Long-term debt.....	$ 6,756	$ 735	$ 735	$ 2,156	$ 5,679	$ 5,811
Redeemable convertible preferred stock.....	$ 4,759	$ 30,759	$ 32,259	$ 32,259	$ 52,255	$ 58,109
Total stockholders' equity (deficit).....	$(5,461)	$(11,833)	$(17,990)	$(31,050)	$(43,322)	$(48,111)

Management's discussion and analysis of financial condition and results of operations

YOU SHOULD READ THE FOLLOWING DISCUSSION OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND THE NOTES TO THOSE STATEMENTS INCLUDED ELSEWHERE IN THIS PROSPECTUS. THIS DISCUSSION MAY CONTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. AS A RESULT OF MANY FACTORS, SUCH AS THOSE SET FORTH UNDER "RISK FACTORS" AND ELSEWHERE IN THIS PROSPECTUS, OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS.

OVERVIEW

We are the first and only company to have developed and commercialized a solid-state, digital gamma camera for use in nuclear medicine. We sell our solid-state, digital gamma cameras and related equipment to physician practices, imaging centers, hospitals and research laboratories in the United States, Canada and Japan. We also use our proprietary technology to provide mobile nuclear imaging services to physician offices and imaging centers through our Digirad Imaging Solutions business unit, or DIS.

We incorporated as San Diego Semiconductor in 1985. In 1994, we changed our name to Digirad Corporation and began development of a solid-state gamma camera for nuclear imaging applications. Between 1994 and 1998, we developed and tested our proprietary technology, financing our research operations with equity investments. We began production of the current generation solid-state digital gamma camera in 1999, and commercial shipments commenced in March 2000. As of June 30, 2001, we had taken orders for 117 gamma cameras, of which 59 have been

shipped. We expect that 38 units in our backlog will be shipped by December 31, 2001 with the remainder expected to be shipped in 2002.

In the second half of 2000, we formed DIS to provide turn-key nuclear cardiac imaging services to physician offices. We entered the service business via the strategic acquisition of certain assets of two operators that provide us with both critical mass and platforms for growth of our imaging services business:

- During the third quarter of 2000, we acquired some of the customer contracts and select assets relating to the mobile nuclear imaging services of Florida Cardiology and Nuclear Medicine Group, a provider of mobile and fixed site nuclear imaging services in Florida. At the time of the acquisition, Florida Cardiology was operating two mobile routes.

- During the fourth quarter of 2000, we acquired some of the customer contracts and select assets relating to the mobile nuclear imaging services of Nuclear Imaging Systems, Inc. and Cardiovascular Concepts, P.C., which together provided mobile and fixed site nuclear imaging services in New Jersey, North Carolina, Maryland and Pennsylvania. At the time of the acquisition, these two companies were operating nine mobile routes.

We have incurred substantial operating losses since our inception. As of June 30, 2001, our accumulated deficit was $51.0 million. We expect to spend substantial additional amounts to increase marketing, direct sales, imaging services, training and customer support needed to support our increasing revenues.

We derive revenues both from selling our products and providing imaging services. We generated approximately 70% of our revenues for the six months ended June 30, 2001 from sales of our

products. Our product revenue consists of sales of solid-state gamma cameras, custom designed chairs and accessories such as printers and collimators. We generated approximately 30% of our revenues for the six months ended June 30, 2001 from our imaging services business. We derive our imaging services revenue from the provision of mobile nuclear imaging services. We provide mobile nuclear imaging services to physician offices, which include cardiology and internal medicine practices, on a turn-key basis utilizing our proprietary DIGIRAD(TM) 2020TC Imager(TM) gamma camera and the SPECTour(TM) chair. We offer this imaging service on a contract basis, with the typical contract length being one to three years and comprised of one day of service per week. As we continue to grow, we expect our imaging services revenue to account for a majority of total revenues.

We sell our products to customers in North America and Japan. A relatively small number of customers account for a significant percentage of our revenues. For the year ended December 31, 2000, three product customers accounted for 15.9%, 11.6% and 10.1% of our consolidated revenues. However, for the six months ended June 30, 2001, no product customers accounted for 10% or more of consolidated revenues. No imaging services customer accounted for 10% or more of our consolidated revenues for the year ended December 31, 2000 or the six months ended June 30, 2001.

We experience seasonality in the service of our DIS customers. For example, our study volumes typically decline from our second fiscal quarter to our third fiscal quarter due to summer holidays and vacation schedules. We may also experience declining study volumes in December due to holidays and in the first quarter due to weather conditions in certain parts of the country. These seasonal factors may lead to fluctuations in our quarterly operating results. It is difficult for us to evaluate the degree to which the summer slowdown, winter holiday variations and inclement weather may make our revenues unpredictable in the future. We may not be able to reduce our expenses, including our debt service obligations, quickly enough to respond to these declines in revenue, which would make our business difficult to operate and would harm our financial results.

RESULTS OF OPERATIONS

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2001 AND 2000

REVENUES

TOTAL REVENUES--Total revenues increased to $14.0 million for the six months ended June 30, 2001 from $1.5 million for the comparable period in 2000.

PRODUCTS--Our product revenue increased to $9.8 million for the six months ended June 30, 2001 from $1.5 million for the comparable period in 2000. This increase

was due to increased sales of our gamma cameras, from six in the first six months of 2000 to 36 in the comparable period in 2001. Our backlog of gamma camera orders was 58 as of June 30, 2001. Product revenue accounted for 70% of total revenues for the first six months of 2001 versus 100% for the first six months of 2000.

IMAGING SERVICES--Our imaging services revenue was $4.2 million for the six months ended June 30, 2001. We did not have any imaging services revenue during the six months ended June 30, 2000, as we did not start this business until the second half of 2000. We performed approximately 6,900 procedures for the six months ended June 30, 2001, and were operating 18 mobile servicing routes as of June 30, 2001. Imaging services revenue accounted for 30% of total revenues for the first six months of 2001.

COST OF REVENUES

TOTAL COST OF REVENUES--Total cost of revenues increased to $9.8 million for the six months ended June 30, 2001 from $3.6 million for the same period in 2000.

PRODUCTS--Cost of product revenue consists primarily of materials, labor and other costs associated with the products we sell. Our cost of product revenue increased to $6.4 million for the six months ended June 30, 2001 from $3.6 million for the comparable period in 2000. The increase in the cost of product revenue for the first six months of 2001 was due primarily to the increase in the volume of cameras and accessories sold. However, cost reductions in the manufacturing process partially offset the increase. As a percentage of product revenue, cost of product revenue was 66% in the first six months of 2001.

IMAGING SERVICES--Cost of imaging services revenue consists primarily of labor, radiopharmaceuticals, equipment depreciation and other costs associated with provision of services. Our cost of imaging services revenue was $3.4 million for the six months ended June 30, 2001. There was no cost of imaging services revenue for the comparable period in 2000. As a percentage of imaging services revenue, cost of services revenue was 81% in the first six months of 2001.

GROSS PROFIT

TOTAL GROSS PROFIT--Total gross profit increased to $4.2 million for the six months ended June 30, 2001 from a loss of $2.1 million for the comparable period in 2000.

PRODUCTS--Our product gross profit increased to $3.4 million for the six months ended June 30, 2001 from a loss of $2.1 million for the comparable period in 2000. This increase was primarily due to reductions in our cost per unit from volume discounts, design modifications, and better utilization of our manufacturing capacity. Although we expect continued gross profit improvements with increased sales as we better utilize our existing manufacturing capacity and benefit from economies of scale, we expect such improvements, if any, to occur at a slower rate than those experienced between 2000 and 2001.

IMAGING SERVICES--Our imaging services gross profit was $0.8 million for the six months ended June 30, 2001. There was no comparable gross profit from imaging services for the six months ended June 30, 2000 because at that date we had not yet entered the imaging services business.

OPERATING EXPENSES

RESEARCH AND DEVELOPMENT--Research and development expenses consist primarily of costs associated with the design, development, testing, deployment and enhancement of our products and manufacturing capabilities. Research and development expenses increased to $1.3 million for the six months ended June 30, 2001 from $1.1 million in the comparable period in 2000. An increase in headcount, materials and other direct and indirect costs in support of our continued product development account primarily for the increase in research and development expenses for the first six months of 2001. For the first six months of 2001, research and development expenses amounted to 9% of total revenue.

SALES AND MARKETING--Sales and marketing expenses consist primarily of salaries, commissions, bonuses, recruiting costs, travel, marketing materials and trade shows. Sales and marketing expenses increased to $4.0 million for the six months

ended June 30, 2001 from $1.3 million in the comparable period in 2000. Our continued development of our sales and marketing functions to support the sales of our gamma camera and the growth of our mobile nuclear imaging services business accounted primarily for the increase in sales and marketing expenses. For the first six months of 2001, sales and marketing expenses amounted to 29% of total revenue.

GENERAL AND ADMINISTRATIVE--General and administrative expenses consist primarily of salaries and other related costs for finance, human resources and other personnel, as well as accounting, legal and other professional fees. General and administrative expenses increased to $2.9 million for the six

months ended June 30, 2001 from $1.1 million in the comparable period in 2000. Increased headcount and related costs account primarily for the increase in general and administrative expenses. For the first six months of 2001, general and administrative expenses amounted to 21% of total revenue.

AMORTIZATION OF INTANGIBLE ASSETS--Intangible assets primarily represent acquired customer contracts, a covenant not-to-compete, and the capitalized costs related to our patent and trademark portfolio. Amortization of intangibles increased to $315,000 for the six months ended June 30, 2001 from $3,000 in the comparable period in 2000. The acquisition of customer contracts from Florida Cardiology and Nuclear Imaging Systems, Inc. in the third and fourth quarters of 2000 primarily accounted for the increase in amortization of intangible assets.

DEFERRED COMPENSATION AND OTHER NON-CASH STOCK COMPENSATION CHARGES--Deferred stock compensation represents the difference between the estimated fair value of our common stock and the exercise price of options at the date of grant. In connection with the grant of stock options to employees and directors, we recorded deferred compensation of $2.0 million for the six months ended June 30, 2001. We recorded this amount as a component of stockholders' equity and will amortize the amount as a charge to operations over the vesting period of the options. We recorded amortization of deferred compensation and other non-cash compensation charges of $1.1 million for the six months ended June 30, 2001. The compensation charges relate to cost of revenues, research and development, sales and marketing, and general and administrative expenses in the amount of $197,000, $61,000, $421,000 and $384,000, respectively, for the six months ended June 30, 2001. No deferred compensation was incurred or amortized during the six months ended June 30, 2000.

INTEREST EXPENSE

Interest expense increased to $545,000 for the six months ended June 30, 2001 from $221,000 for the comparable period in 2000. Increased borrowing under notes payable and capital leases in the latter part of 2000 and the first six months of 2001 account primarily for the increase in interest expense.

INTEREST INCOME

Interest income increased moderately to $145,000 for the six months ended June 30, 2001 from $124,000 for the comparable period in 2000 primarily due to slightly higher average cash balances.

NET LOSS

Net loss increased to $5.8 million for the six months ended June 30, 2001 from $5.7 million in the comparable period in 2000 as a result of the factors described above.

COMPARISON OF YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

REVENUES

TOTAL REVENUES--Total revenues increased to $7.1 million in 2000 from $0.3 million in 1999. Total revenues decreased in 1999 from $1.9 million in 1998. The decrease in 1999 from 1998 was due to $1.6 million of non-recurring license fees and milestone payments recognized in 1998 under a collaborative supply and development agreement.

PRODUCTS--Our product revenue increased to $5.8 million in 2000 from $0.3 million in 1999 and $0.3 million in 1998. Sales of our gamma cameras, first sold in 2000, account for the increase in product revenue. Product revenue accounted for 82% of total revenues in 2000 versus 100% in 1999 and 18% in 1998.

IMAGING SERVICES--Our imaging services revenue was $1.3 million in 2000. We did not have any imaging services revenue in 1999 or 1998. The 2000 imaging services revenue was the result of our

entry into the mobile nuclear imaging services business. Imaging services revenue accounted for 18% of total revenues in 2000.

COST OF REVENUES

TOTAL COST OF REVENUES--Total cost of revenues increased to $10.7 million in 2000 from $0.3 million in 1999 and $0.4 million in 1998.

PRODUCTS--Our cost of product revenue increased to $9.8 million in 2000 from $0.3 million in 1999 and $0.4 million in 1998. Costs associated with the launch of our gamma cameras were the primary reason for the increase in cost of product revenue in 2000.

IMAGING SERVICES--Our cost of imaging services revenue was $0.8 million in 2000. There was no cost of service revenue for 1999 or 1998. As a percentage of imaging services revenue, cost of service revenue was 67% in 2000.

OPERATING EXPENSES

RESEARCH AND DEVELOPMENT--Research and development expenses decreased to $2.4 million in 2000 from $10.1 million in 1999. Research and development expenses increased in 1999 from $5.4 million in 1998. Our transition from development to production prior to the first shipments of our gamma cameras in the first quarter of 2000 was the primary reason for the decrease in research and development expenses. Most direct and indirect expenses charged to research and development expenses in 1999 and 1998 were accounted for as manufacturing expenses in 2000 when we began commercial production. Research and development expenses amounted to 34% of total revenues in 2000. The increase in research and development expenses from 1998 to 1999 was related primarily to an increase in headcount, materials and other direct and indirect costs for the completion of alpha and beta units of our gamma camera.

SALES AND MARKETING--Sales and marketing expenses increased to $3.6 million in 2000 from $1.5 million in 1999 and $0.6 million in 1998. These increases in sales and marketing expense were related primarily to the build out of our sales infrastructure to support the sales of our gamma camera and the start-up of our mobile nuclear imaging services business. Sales and marketing expenses amounted to 51% of total revenues in 2000.

GENERAL AND ADMINISTRATIVE--General and administrative expenses increased to $2.9 million in 2000 from $2.0 million in 1999 and decreased in 1999 from $2.5 million in 1998. The changes in general and administrative expense were primarily due to corresponding changes in headcount and related costs. General and administrative expenses amounted to 41% of total revenues in 2000.

AMORTIZATION OF INTANGIBLE ASSETS--Amortization of intangible assets was $209,000 in 2000. We had no significant intangible asset amortization in 1999 and 1998. The acquisition of customer contracts from Florida Cardiology and Nuclear Imaging Systems, Inc. primarily accounted for the increase.

DEFERRED COMPENSATION AND OTHER NON-CASH STOCK COMPENSATION CHARGES--In connection with the grant of stock options to employees and directors, we recorded deferred compensation of $0.8 million for 2000. We recorded this amount as a component of stockholders' equity and will amortize the amount as a charge to operations over the vesting period of the options. We recorded amortization of deferred compensation and other non-cash stock compensation charges of $0.3 million during 2000. The compensation charges relate to cost of revenues, research and development, sales and marketing, and general and administrative expenses in the amount of $64,000, $6,000, $37,000, and $189,000, respectively, during 2000.

INTEREST EXPENSE

Interest expense increased to $780,000 in 2000 from $87,000 in 1999 and $46,000 in 1998. The addition of $2.0 million in notes payable for general corporate purposes and working capital, as well as a $4.2 million increase in capital leases, were the primary reasons for the increase in interest expense.

INTEREST INCOME

Interest income decreased to $243,000 in 2000 from $360,000 in 1999 and $903,000 in 1998. Declining average cash balances resulting from operational spending along with asset and property and equipment acquisitions are primarily responsible for the decrease in interest income.

NET LOSS

Net loss increased to $13.5 million in 2000 from $13.2 million in 1999 and $6.2 million in 1998 as a result of the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations principally through private equity financings supplemented with long-term debt and equipment financing arrangements. The equity investments were in the form of six series of preferred stock offerings between March 1995 and August 2001, which yielded aggregate net proceeds totaling approximately $66 million. At June 30, 2001, our outstanding borrowings totaled $11.4 million.

As of June 30, 2001, cash and cash equivalents totaled $3.5 million compared to $6.6 million at December 31, 2000. We currently invest our cash reserves in United States investment grade corporate-debt securities with maturities not exceeding 12 months and money market funds.

Net cash used in operating activities amounted to approximately $15.0 million, $12.1 million, $5.5 million and $9.1 million for the years ended December 31, 2000, 1999, 1998 and for the six months ended June 30, 2001, respectively. For these periods, net cash used in operating activities resulted primarily from operating losses and net increases in accounts receivable and inventories resulting from the growth in our business.

Net cash used in investing activities amounted to approximately $7.2 million, $0.9 million, $1.7 million and $2.5 million for the years ended December 31, 2000, 1999, 1998 and the six months ended June 30, 2001, respectively. Investing activities consist primarily of capital expenditures and asset acquisitions.

Net cash provided by financing activities amounted to approximately $26.2 million, $2.0 million, $1.5 million and $8.6 million for the years ended December 31, 2000, 1999, 1998 and the six months ended June 30, 2001, respectively. Private placement of preferred stock and proceeds from bank borrowings and lease financings were primarily responsible for the net cash provided by financing activities. We raised $17.9 million in 2000 and $5.8 million in the first six months of 2001 through the private placement of Series E preferred stock. In addition, we raised an additional $8.4 million in August 2001 through the private placement of Series F preferred stock.

In July 2001, we entered into an agreement with a bank for a $4.3 million revolving line of credit to provide working capital for the product business. Borrowings under the line of credit accrue interest at the bank's floating prime rate plus 2% and are limited based on a formula that takes into account eligible amounts of accounts receivables, inventory and other factors. We are required to make monthly interest payments on this line of credit, which expires in July 2002 with any unpaid balance

due upon expiration. At June 30, 2001, the outstanding balance under this facility was $2.4 million. We intend to repay this loan in full with proceeds from this offering.

In January 2001, we entered into a loan and security agreement for a revolving line of credit to provide working capital for our imaging services business. We are authorized to draw up to $2.5 million and can draw an additional $2.5 million upon approval by the lender's credit committee. The borrowings under the line of credit accrue interest at the higher of prime plus 1.25% or 10.25%. The revolving line of credit expires in January 2004. As of June 30, 2001, the outstanding balance under this loan and security agreement totaled $0.6 million. We intend to repay this loan in full with proceeds from this offering.

In November 1999, we entered into a bank loan and security agreement to borrow up to $3.0 million. In August 2000, we modified the November 1999 loan agreement to borrow an additional $1.0 million. Borrowings under this agreement accrue interest at rates between 13.53% and 14.4%. We are required to make monthly principal and interest payments of $156,273 through November 2002. As of June 30, 2001, $2.4 million is outstanding under these loan and security agreements. We intend to repay this loan in full with proceeds from this offering.

We have notes payable to stockholders totaling $0.7 million, which bear interest

at 6.35% per year. The notes mature on December 31 of the year immediately following the first year in which the Company generates cash from operations, which is expected to be after 2001.

As of June 30, 2001, we had capital lease obligations totaling $5.5 million. These obligations are secured by the specific equipment financed under each lease and will be repaid monthly over the lease terms, which range from 36 to 63 months.

As of December 31, 2000, we had federal and California income tax net operating loss carryforwards of approximately $39.9 million and $27.9 million, respectively. The difference between the federal and California tax operating loss carryforwards is primarily attributable to the 50% limitation in the utilization of California tax net operating loss carryforwards. The federal and California tax net operating loss carryforwards will begin to expire in 2006 and 2002, respectively, unless previously used. We also have federal and California research and development and other tax credit carryforwards of approximately $1.6 million and $1.3 million, respectively, which will begin to expire in 2005 unless previously used. We have provided a 100% valuation allowance against the related deferred tax assets as realization of such tax benefits is not assured. Our ability to use the net operating losses and credits may be subject to substantial annual limitations due to the "change of ownership" provisions of the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of the net operating losses before utilization.

We believe that our existing cash and cash equivalents, revenues to be derived from the sale of our products and imaging services, current and anticipated credit facilities and the net proceeds of this offering will be sufficient to fund our operations for at least twelve months. However, our future capital requirements will depend on numerous factors, including market acceptance of our products and imaging services, the resources we devote to expanding the market for our current products and imaging services and to developing new products, regulatory changes, competition and technological developments, and potential future merger and acquisition activity.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to the increase or decrease in the amount of interest income we can earn on our investment portfolio and on the increase or decrease in the amount of interest expense we must pay with respect to our various outstanding debt

instruments. Our risk associated with fluctuating interest rates is limited, however, to certain of our long-term debt and capital lease obligations, the interest rates under which are closely tied to market rates, and our investments in interest rate sensitive financial instruments. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments. Declines in interest rates over time will, however, reduce our interest income while increases in interest rates over time will increase our interest expense.

INFLATION

We do not believe that inflation has had a material impact on our business or operating results during the periods presented.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2001, we adopted Statement of Financial Accounting Standards, or SFAS, No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. This statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments imbedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. We believe the adoption of SFAS No. 133 will not have an effect on our financial statements because we do not engage in derivative or hedging activities.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141,

BUSINESS COMBINATIONS, and SFAS No. 142, GOODWILL AND INTANGIBLE ASSETS. SFAS No. 141 is effective for all business combinations completed after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS No. 142. Major provisions of these statements and their effective dates for the Company are as follows: (i) all business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001; (ii) intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability; (iii) goodwill and intangible assets with indefinite lives acquired after June 30, 2001, will not be amortized. Effective January 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization; (iv) effective January 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator and (v) all acquired goodwill must be assigned to reporting units for purpose of impairment testing and segment reporting. The Company is currently evaluating the impact that SFAS Nos. 141 and 142 will have on its financial reporting requirements.

Business

OVERVIEW

We are the first and only company to have developed and commercialized a solid-state, digital gamma camera for use in nuclear medicine. We believe this will allow us to become a leading provider of gamma cameras and mobile nuclear cardiac imaging services. Our patented solid-state camera offers many advantages over a conventional vacuum tube camera, such as smaller size, increased mobility, increased durability, improved image quality, expanded clinical applications and enhanced patient comfort. All other gamma cameras on the market currently use conventional vacuum tube technology. We believe the features and benefits of our technology will encourage healthcare providers to choose our camera over conventional cameras for both initial and replacement purchases. In addition, because of our camera's increased mobility and durability, we believe it is ideally suited for use in a mobile imaging services application that has not been widely available until now. We are initially focusing on the nuclear cardiology segment of the nuclear imaging market, which is the largest and fastest growing segment of that market.

Our proprietary technology allows for both a significant reduction in the size of a gamma camera and a significant improvement in spatial resolution which is a measurement of the quality of the image produced. Conventional gamma camera photo-detectors are approximately four inches in height. Our photo-detectors are only 0.012 inches high, providing an approximate 350-to-1 reduction in detector size that makes the camera both thinner and lighter. While conventional cameras use an average calculation to approximate the location of the gamma rays used to create the image, our cameras determine the precise location of these gamma rays. This improves spatial resolution and allows our camera to offer a significant improvement in image quality over the conventional vacuum tube technology.

We are currently addressing the rapidly growing nuclear cardiology market in the following two ways:

- NUCLEAR CAMERA SALES--We are selling our camera and related products to physician offices, imaging centers, hospitals and research laboratories, thus providing customers with a technologically advanced alternative to conventional vacuum tube gamma cameras.

- MOBILE NUCLEAR CARDIAC IMAGING SERVICES--We are also providing mobile nuclear imaging services, as described in this prospectus, to physician offices, including cardiology and internal medicine practices. Our turn-key mobile imaging solution provides on-site access to all the benefits of our advanced diagnostic imaging technology, without requiring customers to make an up-front payment, hire additional personnel, obtain regulatory approval or establish a dedicated nuclear imaging suite. Our service model enables physicians to capture the revenue that would have otherwise been lost because the patient was referred elsewhere. In addition, it provides us with a recurring revenue stream from the servicing of our customers on a routine basis.

We began commercial production of our first solid-state, digital gamma camera product, marketed as the DIGIRAD-TM- 2020TC Imager-TM- gamma camera, in January 2000 and shipped our first unit in March 2000. From our first shipment

through June 30, 2001, we had received orders for 117 cameras, 59 of which had been shipped. We expect that 38 units in our backlog will be shipped by December 31, 2001 with the remainder expected to be shipped in 2002. In addition to numerous independent cardiologists, customers that have purchased our cameras include hospitals, such as The University of Texas M.D. Anderson Cancer Center and Children's Hospital Boston and research laboratories, such as the Proctor & Gamble Company and Nihon Medi-Physics Co., Ltd. Of the 117 cameras, 111 were ordered by customers in the United States and six were purchased by customers in

Japan. For the fiscal year ended December 31, 2000, three of our product customers each accounted for over ten percent of our consolidated revenues.

We established our mobile nuclear cardiac imaging services operations in the third quarter of 2000. As of June 30, 2001, we were providing nuclear cardiac imaging services to approximately 101 physician offices in California, Delaware, Florida, Indiana, Maryland, New Jersey, North Carolina, Ohio and Pennsylvania, and were operating 18 mobile servicing routes, each of which is serviced by one van and one camera. During the six month period ended June 30, 2001, our mobile imaging services business performed approximately 6,900 imaging procedures. No one physician office has accounted for more than ten percent of our consolidated revenues.

We intend to continue expanding our imaging services business throughout the United States, and we have completed license applications to expand into another 12 states.

INDUSTRY OVERVIEW

DIAGNOSTIC IMAGING

Diagnostic imaging technology generates representations of the internal anatomy or physiology, primarily through non-invasive means. Diagnostic imaging facilitates the early diagnosis of diseases and disorders, often minimizing the cost and amount of care required and reducing the need for more costly and invasive procedures. Currently, there are five major types of non-invasive diagnostic imaging technologies available: x-ray; magnetic resonance imaging, or MRI; computerized tomography, or CT; ultrasound; and nuclear imaging.

The first four of these technologies, x-ray, MRI, CT and ultrasound primarily allow the physician to see the anatomical structure of internal organs. Anatomical imaging offers the physician a limited structural assessment of the patient's anatomy. Nuclear imaging, however, offers the ability to non-invasively measure varying degrees of physiological activity, including blood flow, organ function, metabolic activity, biochemical activity, and other functional activity within the body. This functional information allows for the earlier diagnosis of certain diseases than the information provided by anatomical imaging procedures.

NUCLEAR IMAGING

Nuclear medicine is used primarily in cardiovascular, oncology and neurological applications. According to a 2001 study by Frost & Sullivan, a leading marketing consulting company, there were approximately 15.5 million nuclear imaging procedures performed in the U.S. in 2000. We believe over 25 million procedures were performed worldwide. The nuclear imaging market consists of two primary technologies, gamma cameras and dedicated positron emission tomography, or PET, machines. Frost & Sullivan states that gamma cameras are currently the preferred choice for the majority of nuclear medicine procedures. The most widely used type of gamma camera is a single photon emission computed tomography, or SPECT, camera.

In a typical nuclear imaging procedure, the patient is injected with a small amount of radioactive drug, or radiopharmaceutical, which is quickly broken down by the body. Depending on the composition of the radiopharmaceutical, the functionality of the tissue and the procedure being used, the radiopharmaceutical localizes differently in normal versus abnormal tissues. The physician uses images taken from a gamma camera and related clinical information to evaluate the physiological performance of the organ being examined.

TRENDS IN NUCLEAR CARDIAC IMAGING

Nuclear cardiology is the largest and fastest growing segment of the nuclear imaging market. Frost & Sullivan reports that of the 15.5 million nuclear imaging procedures done in the U.S. in 2000, 7.9 million, or 51%, were cardiology related procedures. Nuclear imaging of the heart provides healthcare professionals valuable information related to blood flow, to, through, and from the heart as well as information on the heart muscle. Radiopharmaceuticals are unique in their ability to remain in the heart muscle, enabling visualization during a nuclear cardiac imaging procedure.

Increasingly, a nuclear cardiac imaging procedure is the first non-invasive, diagnostic imaging procedure performed on patients with suspected heart disease. Following a nuclear study, patients with suspected heart disease will often be referred to more invasive diagnostic or therapeutic treatments. These treatments may include: angiography, an x-ray procedure by which catheters are inserted into an artery or vein to take pictures of blood vessels; angioplasty, a procedure by which catheters with balloon tips are used to widen narrowed arteries; or cardiac surgery. Given the clinical advantages of nuclear cardiac images, many payors are requiring nuclear studies prior to the more invasive and expensive diagnostic and therapeutic procedures.

The number of nuclear cardiac imaging procedures grew approximately 23% from 1999 to 2000, and is projected to grow 25% in 2001. Additionally, outpatient cardiology is projected to grow 25% annually from 2001 to 2005. Reasons for the rapid growth in nuclear cardiac imaging procedures include:

- Valuable clinical information;

- Cost-effectiveness;

- Non-invasive nature;

- Established reimbursement; and

- An increase in heart disease.

Frost & Sullivan divides the nuclear cardiac imaging procedure market into four segments: hospital in-patient, hospital out-patient, cardiology practices and diagnostic imaging centers. Traditionally, nuclear medicine procedures have been performed in hospitals under the supervision of nuclear physicians. Although a number of cardiology practices with more than five cardiologists have incorporated nuclear medicine into their practice setting, most nuclear cardiac procedures are currently referred to hospitals and imaging centers, where the cardiologist loses clinical control and receives minimal or no economic benefit.

DIGIRAD'S MARKET OPPORTUNITY

Our technology allows us to address the following two markets:

- NUCLEAR CAMERA SALES--Frost & Sullivan projects that the U.S. gamma camera market for nuclear imaging will be approximately $325 million in 2001, and is expected to grow at an average annual rate of approximately 5% from 2001 to 2007. We estimate that the non-U.S. gamma camera market is approximately $300 million. In addition, we estimate that the market for technical services is an additional 10% to 15% of a camera's purchase price per year over the life of the contract, which is typically 4 to 5 years.

- MOBILE NUCLEAR CARDIAC IMAGING SERVICES--We believe the market opportunity for our mobile nuclear imaging services business is approximately $2.6 billion. This market size is based on our target market of procedures performed in hospital, outpatient facilities, diagnostic imaging centers, physician offices and the following:

  - A report by Frost & Sullivan that approximately 7.9 million nuclear cardiac imaging procedures were performed in the U.S. in 2000;

  - Frost & Sullivan's estimate, based on a more limited study, that approximately 56% of U.S. nuclear cardiac imaging procedures were performed in a hospital outpatient facility, diagnostic imaging center or physician office in 2000; and

  - Our average net revenue of approximately $600 per procedure.

Our proprietary technology enables physicians to perform office-based nuclear imaging procedures that were previously referred elsewhere, with limited disruption to their current practice. Therefore, we believe our solutions will accelerate the transition of nuclear cardiac imaging procedures to non-hospital

sites, in particular cardiology and internal medicine practices.

THE DIGIRAD ADVANTAGE

Our proprietary technology has enabled us to develop a gamma camera with many unique features compared to conventional gamma cameras. The following chart summarizes some of the major advantages of the Digirad solid-state camera versus conventional vacuum tube gamma cameras:

DIGIRAD SOLID-STATE CAMERA	VACUUM TUBE CAMERA
SMALLER SIZE	
425-pound camera and 350-pound	1,500 to 5,000 pound SPECT camera
is SPECTour-TM- chair	requires only 7 large and virtually immobile. Requires
feet by 9 feet of working	space. Can a dedicated room, reinforced
floors be used in physicians' offices	without and extensive room renovations.
requiring additional dedicated space.	
INCREASED	
The mobility of our camera facilitates	Typically, cameras are permanently
MOBILITY our imaging services	business. In installed in hospitals or
imaging addition, hospitals	can use in centers, thus
requiring a physician to examination	rooms or easily roll it transfer

patients
there for
their out
for use in
emergency
rooms,
nuclear
cardiac
imaging
studies.
operating
rooms,
intensive
care units
or critical
care units
for bedside
applications.
INCREASED
Relatively
insensitive
to physical
Single
scintillation
crystal is
easily
DURABILITY
shock or
temperature
variations.
damaged
and/or
destroyed by
physical
Lightweight
detector
head is
easily shock
and/or
temperature
variations,
supported
and should
offer much
leading to
expensive
and greater
reliability
and lower
time-
consuming
replacement.
Heavy
maintenance
costs.
detector
heads cause
reliability
issues
because of
the
complicated
supports
required for
such weight.
Expensive to
maintain.
IMPROVED
Images on
the
perimeter of
the Best
image
quality
obtained
only in
IMAGE
detector
head are as
clear as
images
center of
camera, or
its "sweet
spot."
QUALITY at

the center.
Offers fixed
intrinsic
Spatial
resolution
is based on
spatial
resolution
at any
energy, and
probabilistic
algorithms
that are a
true digital
positioning
that
function of
gamma ray
energy.
pinpoints
the source
of gamma
Intrinsic
spatial
resolution
varies
radiation.
with gamma
ray energy.
EXPANDED
Smaller and
lighter
camera head
can Heads
are less
flexible and
have a
CLINICAL
easily be
shifted to
various
angles
limited
number of
available
positions.
APPLICATIONS
and
positions,
providing
ability to
use in
multiple
applications
in many
areas of the
hospital.
ENHANCED
Patients sit
upright with
their arms
Patients
required to
lie down for
the PATIENT
resting in
front of
them.
procedure
while
holding
their arms
COMFORT
above their
heads for an
extended
period of
time.

OUR BUSINESS STRATEGY

Our goal is to rapidly expand our business and increase our revenues by offering a complete nuclear imaging solution to physician offices, imaging centers, hospitals and research laboratories. The key elements of our business strategy include:

- LEVERAGE OUR PROPRIETARY TECHNOLOGY TO INCREASE SALES OF PRODUCTS AND IMAGING SERVICES--Our proprietary technology provides us with the unique opportunity to capitalize on both the camera sales and mobile imaging services market. We intend to increase sales of our camera and related products by capturing increased market share in existing channels and selling to physicians who can now for the first time place our camera into their practice with limited disruption. We also plan on increasing the number of routes and cardiologists served through our imaging services business, allowing office-based physicians to offer patients the convenience of receiving high quality nuclear imaging services in the office setting. In addition, our imaging services model, which includes a leasing services option, provides us with a recurring revenue stream through the servicing of our customers on a routine basis;

- AGGRESSIVELY TARGET THE GROWING NUCLEAR CARDIOLOGY MARKET--Our sales force is primarily focused on the cardiology market, the largest and fastest growing segment of the nuclear imaging market. While we also sell our products to hospitals and imaging centers, our main focus is to office-based cardiologists and internal medicine practices. We are currently the only company to commercially offer office-based cardiologists a small, mobile, solid-state, digital gamma camera solution. This allows cardiologists to capture business that is currently referred to hospitals or imaging centers, creating additional income, and improving the service they provide to their patients;

- EXPAND OUR INTEGRATED, DIRECT SALES FORCE--We use a direct sales force, supplemented by distributors internationally and in selected domestic geographies. This improves our ability to control our customer interface as well as focus and direct our sales efforts to a much greater extent than if we relied solely on third-party distributors. Investing in our own direct sales organization allows us to build a distribution asset that can be of great value over time as we look to grow the business by potentially providing additional products and services through this sales channel. Our direct sales force is integrated, in that there is a sales team within each geographic region that shares responsibility for customers and overall results. Although each member of the team has a particular focus, either selling cameras or imaging services, collectively, they are responsible for the success of the geographic region. This allows us to better forecast sales and manage the cost of our selling efforts, better meet the demands of our customers, and truly offer our customers a solution tailored to their needs;

- LEVERAGE OUR PROPRIETARY MANUFACTURING PROCESSES--We believe our manufacturing process gives us a key competitive advantage by enabling us to manufacture products that use our proprietary technology in a cost efficient manner. Our manufacturing strategy combines our internal design expertise and proprietary process technology with the advanced manufacturing capabilities and capacity of our strategic manufacturing relationships. We have achieved, and anticipate additional, significant reductions in our manufacturing costs due to increased production volumes, improved yields and product design enhancements;

- EXPAND ACCEPTANCE OF ADDITIONAL CLINICAL APPLICATIONS--The design of our camera provides the capability to perform some nuclear imaging procedures that were not previously available. Additionally, our current technology allows nuclear imaging to be performed in locations within the hospital, including the operating room, emergency department, ICU, and bedside. We are working with clinicians to understand the ways in which they use our camera to validate the use of

our camera for these new clinical applications. In addition, we believe that these new applications of our camera do not constitute new procedures for which we would have to obtain further regulatory approval. We believe this validation will increase the number of hospitals interested in purchasing our camera; and

- CONTINUE TECHNOLOGICAL DEVELOPMENT--We continue to refine and improve our proprietary solid-state detector technology. By improving our technology, we plan to improve the performance of our cameras while at the same time reduce manufacturing costs. We also plan on designing and building a large field of view gamma camera using our technology that will expand clinical applications for our product. In addition, we plan to expand our technology for other uses such as computed tomography, which generates three-dimensional images of the body's internal organs. We also plan to develop gamma cameras specifically designed for research.

CURRENT PRODUCTS

2020TC IMAGER-TM- CAMERA--Our initial product is the 2020TC Imager camera, which has an imaging area of eight inches by eight inches. The imaging area of most conventional vacuum tube cameras is approximately fifteen inches by twenty inches. In addition, in significant contrast to conventional vacuum tube camera heads, which are typically greater than 14 inches thick and weigh upwards of 1,500 pounds, our imager heads are less than four inches thick and weigh about 60 pounds. The DIGIRAD 2020TC Imager provides true camera mobility, solid-state reliability, excellent image quality and expanded clinical applications. Approximately 75% of all nuclear imaging procedures are organ-specific rather than whole body imaging. Our 2020TC Imager can perform all organ specific imaging because these procedures do not require the large field-of-view associated with the conventional gamma camera imaging heads.

SPECTOUR(TM) CHAIR--Unlike conventional systems where the patient lies on their back with their left arm above their head while the camera circles around the patient, the DIGIRAD SPECTour chair allows the patient to be seated upright with their arms resting at shoulder level as they slowly rotate in front of the 2020TC Imager camera's head. The seated position produces improved image quality and is more comfortable to the patient.

SPECTPAK-TM---This product was recently introduced in the second quarter of 2001 and is sold exclusively to the nuclear cardiology market. It combines a modified, feature enhanced version of our 2020TC Imager camera with our SPECTour chair, to provide a more optimal product for the cardiology market segment.

We have developed an image acquisition and processing software system for the DIGIRAD 2020TC Imager camera and SPECTour chair under a license agreement with Segami Corporation. The image acquisition software is designed to take advantage of the unique characteristics of our solid-state detector technology. The processing software is Segami's industry popular Mirage-TM- package. It runs on a Microsoft NT platform and has a graphical user interface.

PRODUCTS UNDER DEVELOPMENT

We plan to introduce a next generation single platform device that incorporates our camera and chair into one unit in late 2002. This configuration is designed to enhance image quality in cardiac applications and requires less working space.

We intend to introduce a multiple-head large field-of-view camera in 2003. This camera will be suitable for whole body imaging and will compete directly with the current large field of view vacuum

tube designs. We believe that we will be able to offer significantly improved products based on solid-state detector technology such as a camera head that can be placed closer to the body and multiple heads that will decrease the processing time.

OPERATIONS

MANUFACTURING

We have been manufacturing our cameras since March 2000. Our manufacturing strategy combines our internal design expertise and proprietary process technology with the advanced manufacturing capabilities and capacities of third parties. We believe our manufacturing processes give us a key competitive advantage by enabling us to manufacture products that use our proprietary technology in a cost-efficient manner.

The general manufacturing process for the detector module includes procurement of key components from key semiconductor manufacturers. We first perform electrical tests on these components and then we deliver these components to

microelectronics packaging, either to our internal operation or to third parties, for component sub-assembly. We then perform final assembly of the detector module and test the detector module. The detector modules are then assembled into a motherboard that is mounted in the camera detector head. The camera's mechanical and electronics systems are assembled separately in our facilities. As is done with the modules, the key components of the camera's mechanical and electrical systems are designed by us, and either outsourced or built internally. These key components include a personal computer, power supplies, cooling system, liquid crystal display, controller boards, data acquisition and communication system, and the mechanical structure of the camera. We perform sub-assembly tests and final system performance tests in our facilities.

All components used in the product are available from multiple sources with the exception of the Segami image acquisition and processing software. All suppliers of critical materials, components and subassemblies undergo ongoing quality certification by us, with the objective of maintaining strong relationships with the best suppliers. We utilize enterprise resource planning software and collaborative web-based software to ensure efficient and secure handling of inventory and material. The enterprise resource planning software helps us to manage our inventory and materials by centralizing our purchasing procedures, monitoring our inventory supplies and streamlining our billing methods. The collaborative web-based software is a secure electronic network that enables our employees to access our documents from anywhere in the world via the Internet.

We successfully completed a certification audit performed by the state of California's Food and Drug Branch in the first quarter of 2000. As part of this audit, the California Food and Drug Branch recognized our compliance with the "Good Manufacturing Practices" requirements of the federal Food and Drug Administration, or the FDA. The FDA has issued us an Establishment Registration. We have also obtained pre-market clearance from the FDA, enabling us to market our 2020TC Imager camera and SPECTour chair. California's Food and Drug Branch also issued us a State of California Medical Device Manufacturing License. We also received regulatory approval from the Japanese Ministry of Health in October 2000, which is similar to our FDA Establishment Registration, and expect to receive a Canadian Medical Device license in the third quarter of 2001. In addition, the Canadian government requires approval of a gamma camera model by the Canadian Standards Association before the model can be sold in Canada, and we expect to receive such approval in the third quarter of 2001. In conjunction with implementing Good Manufacturing Practices and product safety standards, we expect to obtain a product approval in the third quarter of 2001 from Underwriters Laboratories Inc. Underwriters Laboratories Inc. is an independent, not-for-profit product safety testing and certification organization, and some gamma camera customers in the United States require that the model of the

camera they purchase pass a test developed for medical products by this organization. In early 2002, we plan to initiate the drive for ISO-9000 quality certification with the expectation of receiving certification in late 2002. ISO-9000 is a compilation of quality standards promulgated by the International Organization for Standardization, and a manufacturer that has been certified to use a quality program that meets ISO-9000 does not have to independently test each product that it sells in the European Community.

IMAGING SERVICES

Our imaging services business is operated by our Digirad Imaging Solutions business unit. We established our imaging services operations in the third and fourth quarters of 2000 by acquiring certain assets of two regional providers of mobile nuclear imaging services. As of June 30, 2001, we were operating 18 mobile routes, each of which is serviced by one van and camera, and were providing nuclear cardiac imaging services to approximately 101 physician offices in California, Delaware, Florida, Indiana, Maryland, New Jersey, North Carolina, Ohio, and Pennsylvania. In addition, we have completed licenses or license applications and plan to expand into another 12 states in 2001.

Our imaging services model consists of two primary delivery options. Under our first option, which we refer to as "mixed billing," we provide the technical component of nuclear imaging services and bill either the physician or the patient's third party payor, such as Medicare, on a per procedure basis. When we bill some third party payors, such as Medicare, we also bill the patient for any copayment. The physician performs and bills for the technical component, such as the interpretation of the test. Under our second option, we lease cameras, related equipment and technical personnel to physicians on a turn-key basis so

that they may deliver imaging services to their patients. The physician then bills globally for both the technical and professional component. The physician pays us on a fixed daily lease basis. When we refer to "imaging services" in this prospectus, we are referring both to our mixed billing option and our leasing services option. We provide services under a minimum one year contract.

We intend to provide our imaging services in two ways:

- MOBILE ROUTES: Currently, all of our mobile imaging services are performed using mobile routes. We provide a 2020TC Imager camera, a SPECTour chair, equipment used to handle and measure the radiopharmaceuticals used in the procedure, nuclear technician and other services to a clinician's office on a daily lease basis or a combination of direct payor billing and fee per study basis; and

- FIXED SITES: We may, in the future, deliver services using fixed sites. We would install a 2020TC Imager camera, a SPECTour chair, and hot lab equipment in a clinician's office or other site. Also, we would provide the nuclear technician and other services to the clinician or site on a per month or other periodic basis.

We seek to maximize revenue, cash flow and return on assets by actively managing our fleet to maximize utilization. We employ logistics management systems and typically schedule imaging services vans for one day per week at a particular physician's office. Generally, each van consists of a 2020TC Imager camera, a SPECTour chair, equipment used to handle and measure the radiopharmaceuticals used in the procedure, a nuclear medicine technician and a clinical assistant. The vans are typically operated from a regionally-centralized base location and stored at the base location each evening. Radiopharmaceuticals are ordered each day in sufficient quantity for the next day's scheduled procedures and are delivered in the morning before the van leaves for its scheduled appointments from the base location.

SALES AND DISTRIBUTION

We sell our camera products and our imaging services through a direct sales force, supplemented by two independent distributors in the United States, an independent distributor in Canada and a corporate partner in Japan. Our direct sales force in the United States is responsible for selling both gamma cameras and imaging services. We utilize a team selling approach with Territory Managers, and Sales Representatives. Our Territory Managers typically have over 10 years of experience selling sophisticated capital equipment in the medical market and focus primarily on selling our gamma cameras to end users. Our Sales Representatives typically have over five years of selling experience and focus primarily on selling the imaging services solutions, which are marketed under the Digirad Imaging Solutions name. In addition, our selling teams include Sales Specialists, which focus on pre-sales support, and Application Specialists, which focus on post-sales training and support. Both the Sales Specialist and Application Specialist positions require significant prior work experience as a Nuclear Medicine Clinical Technologist. We will maintain independent distributors in those territories where the distributor has demonstrated a commitment to our business by providing dedicated resources, and where acceptable performance metrics are met.

Our target markets for the sale of our camera are cardiology practices, hospitals, and imaging centers. Our experience to date suggests the sales cycle for camera sales typically ranges from 90 to 180 days for a cardiology practice and from 180 to 365 days for a hospital, with imaging centers being somewhere in between. The complexity of the buying organization and their budgeting/purchasing process for capital equipment determine the length of the sales cycle.

Our target markets for our mobile nuclear imaging services are primarily cardiology practices. Our experience to date indicates the sales cycle for these imaging services customers is generally between 21 and 90 days.

Currently, our United States direct sales organization is made up of a Vice President of Sales, a Western Region Director, an Eastern Region Director, a Southern Region Director, eleven direct Territory Managers, eleven Sales Representatives, four Sales Specialists and three Application Specialists. Additionally, we have three direct technical service technicians that interact with our independent technical service provider around the country. Our independent technical service provider is Universal Service Trends, which has over 50 technicians covering the entire continental United States.

Though our sales have been primarily focused on the domestic market, we have

established sales channels for international expansion into Japan and Canada. In January 2000, we entered into a distribution agreement with Mitsui Corporation to distribute DIGIRAD-TM- products in Japan, primarily to hospitals. In conjunction with this distribution agreement, Mitsui made a $1 million equity investment in Digirad in March 2000. We received Japanese Ministry of Health regulatory approval in October 2000. Product shipments and sales started in Japan in the fourth quarter of 2000, and as of June 30, 2001, we had sold six units in Japan. In Canada, we currently have a distributor representing Digirad and expect Canadian sales and shipments to begin in the fourth quarter of 2001.

All of our cameras are warranted for one year after shipment. The philosophy of our warranty service is to locate in the field and replace faulty assemblies with workable units from the service inventory. This approach is greatly facilitated by the design of the 2020TC Imager camera because all of our cameras are equipped with diagnostic software and a telephone modem enabling the diagnostic software to be accessed remotely. This capability allows us to assist field service personnel in rapidly locating a faulty assembly, and because no critical assembly weighs more than 50 pounds, shipping assemblies is easily accomplished via air courier. Service contracts supplement to the one year warranty

for nuclear medicine equipment are typically four to five years in length, and cost the customer 10% to 15% of the purchase price of the cameras annually.

MARKETING

We formally launched the 2020TC Imager camera and the SPECTour chair at the Society of Nuclear Medicine meeting in June 1999 in Los Angeles. We began limited product shipments in March 2000, and began full product release in July 2000. Our continuing marketing efforts include the following:

- Establishing Centers of Excellence for demonstration sites and clinical studies;
- Participating in major trade show exhibits at meetings sponsored by organizations such as the American College of Cardiology, the American Heart Association, the Society of Nuclear Medicine, the Radiological Society of North America, the European Association of Nuclear Medicine and the Japanese Society of Nuclear Medicine;
- Advertising in key nuclear medicine and cardiology journals;
- Developing an active medical advisory board;
- Participating in clinical studies and authoring publications through the Digirad North American Working Group;
- Sending direct mailings to cardiology and nuclear medicine clinicians and decision makers;
- Preparing sales collateral material, including product brochures, product CDs, specification sheets, training materials, presentation materials, and image sheets; and
- Participating in the American College of Nuclear Physicians.

We have been very active in the nuclear medicine community over the last five years and exhibited earlier prototypes of our product at the last five Society of Nuclear Medicine meetings. We plan to pursue strategic alliances and co-promotional efforts with appropriate partners. Such partners may be pharmaceutical companies selling radiopharmaceuticals, imaging companies, radiopharmacies, or cardiology companies. These partnerships may consist of marketing partnerships, joint development efforts, or manufacturing alliances.

TECHNOLOGY

OVERVIEW

The challenge of any camera system is to accurately map the spatial location of the objects in its field-of-view from the real world to the camera's world. Optical cameras use lenses to focus the light from a large real-world image field onto a small image plane where a detector (film or electronic) is located. However, since gamma rays cannot be focused, the area of the detector of a gamma camera must be approximately as large as the area of the object being imaged.

CONVENTIONAL TECHNOLOGY

It is very difficult to build a gamma detector that can directly convert the kinetic energy of a gamma ray photon into an electrical charge. Therefore, most gamma ray detectors employ a scintillation crystal, or scintillator, to convert the high energy of a single gamma ray photon into a large number of low energy optical photons. The vast majority of nuclear medicine gamma cameras in use today use a single crystal sheet as the scintillator. The area of this crystal defines the field of view of the camera. Typical fields of view range from 64 square inches to 300 square inches.

Once the gamma rays are converted into optical photons, these photons are then converted into electrical charges by the next part of the detector, the photo-detector. Almost all gamma cameras in use today use vacuum tube devices called photomultiplier tubes as their photo-detectors. The typical photomultiplier tube has a photosensitive surface of approximately 7 square inches. In order to cover the entire field of view of the scintillation crystal, square or hexagonal shaped photomultiplier tubes are packed together in an array of anywhere from nine to 100 tubes. Optical photons striking anywhere on the surfaces of the photomultiplier tubes are converted into electrons which are then multiplied to produce a small electrical current output. These electronic charges are then passed to the final part of the detector, the readout electronics, and then into the camera's computer system to be processed into the digital images viewed by the physician.

A problem with the conventional gamma camera is that it attempts to use an array of photomultiplier tubes, to spatially resolve the point at which a gamma ray strikes the surface of the camera. This method, called the Anger method, can only estimate where the gamma ray strikes. It does so by combining the output signals of all of the photomultiplier tubes and computing a position as a function of the weighted average of the individual photomultiplier tube signals.

Because there can be considerable discrepancies between where the gamma ray is reported to have struck the detector versus where it actually struck the detector, Anger style gamma cameras can produce blurred images, which in turn can impede the physician's ability to accurately read the image. While there has been a large amount of effort spent in improving the performance of Anger style gamma cameras, the underlying problem still exists: a single-scintillation crystal, multi-photomultiplier tube based detector must rely upon probabilistic position estimation.

DIGIRAD'S TECHNOLOGY

Digirad has overcome the fundamental drawback of the Anger method by constructing a detector which provides total certainty of the spatial location of the gamma ray. We achieve this certainty by dividing or segmenting the detector into a large array of individual detection elements whose size equals the spatial resolution desired, in our case, 3 millimeters by 3 millimeters. A gamma ray emitted from a patient strikes the detector and the spatial location of this event is mapped directly to the image. The response function of our segmented detector is much more precise than that of the Anger style photomultiplier tube. Furthermore, a segmented detector processes gamma ray events in parallel; each pixel is an independent detector. In a single-crystal, Anger style detector, events are processed in a series, one event at a time. In general, this means segmented gamma cameras can achieve much higher gamma ray detection rates than single-crystal gamma cameras.

Previous attempts to construct a segmented detector by both industry groups and academics have been unsuccessful, primarily due to the Anger camera's photodetector. Given their relative size, instability, and numerous other factors, Anger style photomultiplier tubes are unsuitable for use in a segmented detector. A more optimal photodetector is a high-performance silicon photodiode. Silicon photodiodes can be packed closer, provide solid-state reliability, and are more efficient at converting the scintillation photons coming from the scintillation crystal. However, technical difficulties in producing high quality photodiodes that are reliable and can be used for gamma cameras have been a major impediment to their use in this application.

We have developed a photodiode that meets these stringent performance

requirements. In addition, over the last 2 years, we have developed a patent pending manufacturing process for cost-effectively producing these photodiodes in volume. Our use of silicon photodiodes as photodetectors has, in turn, enabled the use of a more efficient scintillation crystal in the DIGIRAD-TM- detector module. A photomultiplier tube is at peak efficiency using blue wavelengths of light. Therefore, conventional gamma cameras use a single, planar crystal of thallium activated sodium iodide, or NaI(Tl), which

emits blue wavelengths of light during scintillation. Silicon photodiodes, however, are most sensitive to the longer wavelengths of the visible spectrum. For this reason, thallium activated cesium iodide, or CsI(Tl), is a better scintillator for silicon photodiodes than NaI(Tl). Significantly, CsI(Tl) is also 36% more efficient than NaI(Tl) at converting the energy of the gamma ray to optical photons. In addition, CsI(Tl) is denser, and is therefore better at absorbing gamma rays, than NaI(Tl); a 6 millimeter thick CsI(Tl) detector absorbs the same number of 140 keV gamma rays as does a 9 millimeter thick NaI(Tl) scintillator. The DIGIRAD camera uses a six millimeter thick CsI(Tl) segmented scintillation crystal.

The key components of the segmented CsI(Tl) scintillation crystal, silicon photodiode and readout electronics are all packaged into a detector module. Our detector module is designed so that it can be tiled with several other modules to create a large area detector of essentially any shape. Digirad holds several patents covering this concept of modules than can be tiled.

The current DIGIRAD 2020TC Imager camera uses 32 modules to create its 8 inch by 8 inch detection area. The array of detection modules is then placed behind a collimator and into a lead-shielded head case. A collimator is a device constructed from lead with thousands of small parallel holes that are aligned perpendicular to the camera's detector surface. The collimator's purpose is to only allow gamma rays that are perpendicular to the camera surface to be detected, thereby helping prevent blurred images. Below is a view of the 2020TC Imager camera detector head assembly and illustrates the arrangement of the modules, collimator and lead-shielded head case.

[Picture of detection head.]

THE DIGIRAD CAMERA'S TECHNICAL ADVANTAGES

SMALLER SIZE--The main advantage that our photodiode technology provides is a significant reduction in the size of a gamma camera. As previously described, a conventional gamma camera uses photomultiplier tubes, 4 inches in height, as its photo-detectors. The photo-detectors in our camera are silicon photodiodes, 0.012 inches in height. This almost 350-to-1 reduction in the photo-detector size enables the DIGIRAD camera head to be significantly thinner than a conventional camera's head. Furthermore, because all gamma camera heads are lead-shielded, the much thinner DIGIRAD camera head is also much lighter. The smaller, lighter head of the DIGIRAD camera results in a smaller and lighter overall camera assembly, which increases the mobility of the camera and its scope of clinical applications.

[Picture of photo multiplier tube versus Digirad photodiode.]

IMAGE QUALITY--Digirad's segmented gamma camera offers significant improvement in intrinsic image quality compared to conventional Anger style cameras because the DIGIRAD camera's detector is segmented. Segmentation offers fixed intrinsic spatial resolution which provides for true digital positioning. Today, the word "digital" is used in virtually every gamma camera sold. While this can describe various aspects of the electronics and the stage at which the signals are converted from their inherent analog type to a digital signal, only a segmented detector has true digital event positioning. We call this process Digital Position Sensing(SM).

LARGER USEFUL FIELD OF VIEW / LESS "DEAD SPACE"--Another advantage of the DIGIRAD camera is that our detector head has a larger useful field of view. In an Anger style camera, gamma rays that strike the perimeter of the scintillation crystal are viewed by fewer photomultiplier tubes than those striking in the middle of the crystal. Because the Anger camera requires input from multiple photomultiplier tubes in order to calculate an average spatial position, this creates an area of dead space around the edge of the detector head in which the image is not useful. As a result, the useful field of view on Anger style

cameras is smaller than the area of the detector. However, Digital Position Sensing eliminates any dead space around the edge of the detector head, thus making the useful field of view on the DIGIRAD camera almost equal to the entire area of the detector surface.

ENHANCED OPERABILITY AND RELIABILITY--In addition to a smaller size gamma camera, our solid-state technology enables a more convenient to operate, power efficient and more reliable gamma camera. Conventional Anger style gamma cameras must be powered continuously in order to temperature stabilize their vacuum photomultiplier tubes, which complicates significantly the design and construction of portable Anger style cameras. Since Anger cameras draw electrical power 24 hours per day, they dissipate heat that must be removed by a heating and ventilation system. The DIGIRAD camera does not need to be powered continuously and is ready to image minutes after turn on. These qualities enable a DIGIRAD unit to be mobile and also saves on electrical power; less power is required to operate the camera and cool the room in which it is operated. Solid-state detectors are more mechanically rugged than photomultiplier tubes. The shock of crossing a curb cut or a door threshold will not change the performance characteristics of our solid-state detector as it can with a

photomultiplier tube. Our solid-state detectors also can tolerate more rapid changes in temperature than can an Anger style camera, another important capability for a portable camera that is moved in and out of buildings and vehicles.

INTELLECTUAL PROPERTY

We have developed a broad intellectual property portfolio that includes overall product, component level and process patents. Currently, we have 15 patents issued and have eight additional patents pending in the United States. We also have one patent licensed from a third party for exclusive use in nuclear imaging. The Japanese and European equivalents for several of these United States patents are pending, with one Japanese and one Korean patent issued. In addition to our broad solid-state detector and photodiode technology patents, we hold specific patents for an alternative solid-state method using Cadmium Zinc Telluride, or CZT, that we previously pursued for use in gamma cameras. While each of our patents apply to nuclear medicine, many also apply to the construction of area detectors for other types of medical imagers and imaging methods. A summary of our intellectual property portfolio is as follows:

- Fifteen United States patents issued;
- One Japanese patent issued;
- One Korean patent issued;
- Eight utility applications that are pending with the United States Patent and Trademark Office, with office actions having been received on two; and
- One provisional application is in progress.

We believe it would be difficult to develop an economically viable competitive solid-state, digital gamma camera without infringing our patents.

COMPETITION

CAMERA SALES--The major manufacturers of nuclear medicine cameras, all of whose cameras are based on the conventional vacuum tube technology, include Philips Medical Systems through its subsidiary ADAC Laboratories, General Electric Medical Systems, Siemens Medical Systems, Marconi Medical Systems (pending acquisition by Phillips Medical Systems) and Toshiba Medical Systems. All of these competitors offer a full line of imaging cameras for each diagnostic imaging technology, including x-ray, magnetic resonance imaging, computed tomography, ultrasound and nuclear medicine. The possibility exists that one or more of these companies could decide to develop its own solid-state, digital gamma camera. However, we believe it would be difficult to develop an economically viable competitive camera without infringing our patents.

IMAGING SERVICES--Competition in the mobile nuclear imaging services business is limited. Competitors tend to be small, undercapitalized businesses employing conventional vacuum tube cameras that must be transported in large trucks and cannot be moved in and out of physician offices. We expect to have a distinct competitive advantage by controlling the enabling technology that provides the convenience, quality and high level of service physicians will expect. As a result, we believe that our imaging services business will have a proprietary technological position. Additionally, we do not expect competition in the mobile imaging service business from traditional nuclear imaging manufacturers because their focus is on camera sales to hospitals.

GOVERNMENT REGULATION

Our business is subject to extensive federal and state government regulation. Some of these laws have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. In addition, these laws and their interpretations are subject to change.

FRAUD AND ABUSE LAWS

The healthcare industry is subject to extensive federal, state and local regulation relating to licensure, conduct of operations, ownership of facilities, addition of facilities and services and payment for services.

In particular, the federal Anti-Kickback Law prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or furnishing or arranging for a good or service, for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs. The definition of "remuneration" has been broadly interpreted to include gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash and waivers of payments. The statute itself has been broadly interpreted to mean that if any ONE purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. The penalties for violating the Anti-Kickback Law can be severe. These sanctions include criminal penalties and civil sanctions, including fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare Programs.

The Anti-Kickback Law is broad, and it prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Recognizing that the Anti-Kickback law is broad and may technically prohibit many innocuous or beneficial arrangements within the healthcare industry, the United States Department of Health and Human Services has issued a series of regulations, known as the "safe harbors," beginning in July of 1991. These regulations set forth certain safe harbors which, if all applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Law. Additional provisions providing similar protections have been published intermittently since 1991. Although full compliance with all applicable safe harbors ensures against prosecution under the Anti-Kickback Law, the failure of a transaction or arrangement to fit within one or more safe harbors does not necessarily mean that the transaction or arrangement is illegal or that prosecution under the Anti-Kickback Law will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities such as the Office of the Inspector General of the United States Department of Health and Human Services, or OIG. To provide specific guidance on the application of the Anti-Kickback Law, Congress required the OIG to implement an advisory opinion process. In an advisory opinion, the OIG may determine that it will not sanction the advisory opinion's requestor even if the arrangement or practice in question technically violates the

Anti-Kickback Law. Although these advisory opinions are binding on the OIG and the parties requesting the opinions, no third-party may legally rely on them.

Many states have adopted laws similar to the Anti-Kickback Law. Some of these state prohibitions apply to referral of patients for healthcare services reimbursed by any source, not only the Medicare and Medicaid programs. Some of these state prohibitions may be more restrictive than the Anti-Kickback Law in material respects, and the federal safe harbors may not apply.

Our nuclear imaging services model includes providing services and supplies to physicians, for which the physicians pay us, for the use in treating their privately insured patients. These physicians also refer Medicare patients to us, for which we bill the Medicare program directly. This type of arrangement, if not properly structured, may violate the Anti-Kickback Law and also raises issues under another Medicare statute, 42 U.S.C. Section 1320a-7(b)(6). That statute prohibits providers from charging Medicare substantially in excess of the provider's usual and customary charges unless the Secretary of Health and Human Services finds good cause. We have attempted to structure such arrangements and our other services to comply with the Anti-Kickback Law and similar state laws, as well as with 42 U.S.C. Section 1320a-7(b)(6). However, there can be no assurances to this effect. We have attempted to structure our business arrangements for the provision of single photon emission imaging and other services comply with the Anti-Kickback Law and similar state laws, but there can be no assurances to this effect.

In addition, the Ethics in Patient Referral Act of 1989, commonly referred to as the federal physician self-referral prohibition or Stark Law, prohibits physician referrals of Medicare patients to an entity for certain designated healthcare services if the physician or an immediate family member has an ownership interest in, or compensation arrangement with, the entity and no statutory or regulatory exception applies. It also prohibits an entity receiving a prohibited referral from billing and collecting for services rendered pursuant to such referral. Initially, the Stark Law applied only to clinical laboratory services and regulations applicable to clinical laboratory services were issued in 1995. Earlier that same year, the Stark Law's self-referral prohibition expanded to additional goods and services, including radiology services, magnetic resonance imaging, computerized axial tomograph scans, and ultrasound services. In 1998, the Healthcare Financing Administration, now known as the Centers for Medicare and Medicaid Services, or CMS, published proposed rules for the remaining designated healthcare services, that would have included nuclear imaging within the meaning of "radiology services." However, in January of 2001, CMS published a final rule which it characterized as the first phase of what will be a two-phase final rule, which reversed this position and indicated that nuclear medicine would not be a service covered under the Stark Law. CMS has also indicated that other supplies provided by us do not constitute designated healthcare services. However, it is possible that CMS will again reverse its interpretation in the future to include nuclear imaging as a Stark covered service, or that such supplies could be interpreted in the future to constitute designated healthcare services under the Stark Law.

A person who engages in a scheme to circumvent the Stark Law's prohibitions may be fined up to $100,000 for each such arrangement or scheme. In addition, anyone who presents or causes to be presented a claim to the Medicare program in violation of Stark is subject to monetary penalties of up to $15,000 per service, an assessment of several times the amount claimed, and possible exclusion from participation in federal healthcare programs. Claims submitted in violation of Stark may also be subject to liability under the federal False Claims Act and its whistleblower provisions (as discussed below).

Several states in which we operate have enacted or are considering legislation that prohibits physician self-referral arrangements and/or requires physicians to disclose any financial interest they may have

with a healthcare provider to their patients when referring patients to that provider. Possible sanctions for violating state physician self-referral laws vary, but may include loss of license and civil and criminal sanctions. State laws vary from jurisdiction to jurisdiction and, at least in certain states, are more restrictive than the federal Stark Law in a number of material respects. In certain states, these restrictions may add considerable expense to or limit altogether the types of business models we may successfully utilize. Some states have indicated they will interpret their own self-referral statutes the same way that the Centers for Medicare & Medicaid Services interpret the Stark Law, but it is possible the states will interpret their own laws differently in the future. We have attempted to structure our operations to comply with these federal and state physician self-referral prohibition laws, but there can be no assurances to this effect.

The Health Insurance Portability and Accountability Act of 1996 created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment or exclusion from government sponsored programs. The false

statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. A violation of this statute is a felony and may result in fines or imprisonment. The Health Insurance Portability and Accountability Act of 1996 also will require us to follow federal privacy, security and transaction standards for the transmission, storage and use of individually identifiable health information, which may add significant costs and potential burden to our operations. A violation of these privacy standards may result in criminal and civil penalties.

Both federal and state government agencies are continuing heightened and coordinated civil and criminal enforcement efforts. As part of announced enforcement agency work plans, the federal government will continue to scrutinize, among other things, the billing practices of hospitals and other providers of healthcare services. The federal government also has increased funding to fight healthcare fraud, and it is coordinating its enforcement efforts among various agencies, such as the United States Department of Justice, the OIG, and state Medicaid fraud control units. We believe that the healthcare industry will continue to be subject to increasing government scrutiny and investigations.

FEDERAL FALSE CLAIMS ACT

Another trend affecting the healthcare industry is the increased use of the federal False Claims Act and, in particular, actions under the False Claims Act's "whistleblower" provisions. Those provisions allow a private individual to bring actions on behalf of the government alleging that the defendant has defrauded the federal government. After the individual has initiated the lawsuit, the government must decide whether to intervene in the lawsuit and to become the primary prosecutor. If the government declines to join the lawsuit, then the individual may choose to pursue the case alone, in which case the individual's counsel will have primary control over the prosecution, although the government must be kept apprised of the progress of the lawsuit. Whether or not the federal government intervenes in the case, it will receive the majority of any recovery. If the litigation is successful, the individual is entitled to no less than 15%, but no more than 30%, of whatever amount the government recovers. The percentage of the individual's recovery varies, depending on whether the government intervened in the case and other factors.

Recently, the number of suits brought against healthcare providers by private individuals has increased dramatically, many of which are still under seal from the public. In addition, various states are considering or have enacted laws modeled after the federal False Claims Act. We are unable to predict whether we will be subject to future actions or the impact of any future actions.

When a person is determined to have violated the federal False Claims Act, it must pay three times the actual damages sustained by the government, plus mandatory civil penalties of between $5,500 to $11,000 for each separate false claim. There are many potential bases for liability under the federal False Claims Act. Liability arises, primarily, when an entity knowingly submits, or causes another to submit, a false claim for reimbursement to the federal government. Although simple negligence should not give rise to liability, submitting a claim with reckless disregard or deliberate ignorance of its truth or falsity could result in substantial civil liability.

UNLAWFUL PRACTICE OF MEDICINE AND FEE SPLITTING

The marketing and operation of our diagnostic imaging systems are subject to state laws prohibiting the practice of medicine by non-physicians, or the employment or excessive control of the medical judgment of physicians by non-physicians (often referred to as the corporate practice of medicine). We have attempted to structure our operations so that they do not involve the practice of medicine, or violate corporate practice of medicine statutes. For example, all professional medical services relating to our operations, including the interpretation of scans and related diagnoses, are separately provided by licensed physicians not employed by us. Some states also have laws that prohibit any fee-splitting arrangement between a physician and a non-physician. We have also attempted to structure our operations so that they do not violate these state laws with respect to fee splitting. However, there can be no such assurance to that effect with respect to these two sets of laws.

CERTIFICATE OF NEED LAWS

Some states require a certificate of need, or similar regulatory approval, prior to the acquisition of high-cost capital items or services, including diagnostic imaging systems or provision of diagnostic imaging services by us or our clients. Certificate of need regulations may limit or preclude us or our clients from providing diagnostic imaging services or systems.

REIMBURSEMENT

We derive a substantial percentage of our revenues from government programs, such as Medicare, or direct billings to physicians. We derive a smaller percentage of our revenues from direct billings to other third-party payors. Services for which we submit direct billings for Medicare patients typically are reimbursed by Medicare on a fee schedule basis.

As a result of federal cost-containment legislation that has been in effect for many years, Medicare generally pays for inpatient services under a prospective payment system based upon a fixed amount for each Medicare patient discharge. Each discharge is classified into one of many diagnosis related groups. A pre-determined payment amount covers all inpatient operating costs, regardless of the services actually provided or the length of the patient's stay. Because Medicare reimburses most hospitals for all services rendered to a Medicare inpatient on the basis of a pre-determined amount based on the diagnosis related groups, most hospitals, and all free-standing facilities, cannot be separately reimbursed by Medicare for a single photon emission imaging scan or other procedure performed on hospital inpatients. Many state Medicaid programs have adopted comparable payment policies.

On August 1, 2000, the Centers for Medicare and Medicaid Services implemented a Medicare outpatient prospective payment system under which services and items furnished in hospital outpatient departments are reimbursed using a pre-determined amount for each ambulatory payment classification. Each ambulatory payment classification is based on the specific procedures performed and items furnished during a patient visit. Certain items and services are paid on a fee schedule, and hospitals are reimbursed additional amounts for certain drugs, biologics and new technologies. We

cannot predict what impact the new Medicare outpatient reimbursement system will have on the demand for our cameras and services from hospitals.

MEDICARE BILLING AND ENROLLMENT

We can bill Medicare directly for services only to the extent we are enrolled as an independent diagnostic testing facility. Medicare has delegated the function of enrollment to contractors known as the Medicare carriers, each of whose jurisdiction varies, as some carriers govern several states, some just one state and some just a portion of a state. Although federal regulations and program memoranda from the Centers for Medicare and Medicaid Services set forth uniform rules governing independent diagnostic testing facility billing and enrollment, each carrier is free to interpret these rules to a certain extent. For example, an independent diagnostic testing facility is required to have one or more supervising physicians, each of whom meets certain proficiency requirements; these precise proficiency requirements vary from carrier to carrier. The nature of a particular carrier's proficiency and other requirements may add considerable expense to or limit the types of business models we may be able to utilize successfully in the carrier's jurisdiction.

Part of our business involves the leasing of equipment and personnel to physicians, who then bill Medicare and other third party payors directly for nuclear imaging services. Medicare rules permit physicians to bill for certain diagnostic tests performed using leased equipment and personnel, and to receive payment based on the applicable Medicare fee schedule, if certain conditions are satisfied. We have attempted to structure our equipment and personnel leases so that physicians are able to bill in this manner if they comply with the terms of the leases, but there can be no assurance to that effect. If any of our leasing physicians are deemed not to meet these conditions, payment to the affected physicians could be denied or recouped. If the failure to comply is deemed to be "knowing" and/or "willful," as defined in federal statutes, the government could seek to impose fines or penalties. This may require us to restructure our agreements with these physicians and/or respond to any resultant claims by physicians or the government.

NON-GOVERNMENTAL THIRD PARTY PAYOR LIMITATIONS

Non-governmental third party payors, such as commercial health maintenance organizations, or HMOs, preferred provider organizations, or PPOs, and other insurers, may impose varying requirements and limitations on our ability to

receive payment directly for services we provide. For instance, some payors will not reimburse us separately for the nuclear imaging tests we perform, and instead require that reimbursement be paid only on a "global" basis to the physician who provides the professional interpretation of the nuclear imaging test. Such payor requirements and limitations restrict the types of business models we can successfully utilize for patients covered by these payors.

PHARMACEUTICAL LAWS

Our services involve radiopharmaceuticals and other substances regulated as drugs by state and federal agencies, including the federal Food and Drug Administration and state pharmacy boards. These agencies administer laws governing the manufacturing, distribution, use, administration and prescribing of drugs. These laws include the federal Food, Drug and Cosmetic Act, state food and drug laws and state pharmacy acts. Some of our activities may be deemed to require additional permits or licensure under laws which impose substantial restrictions on who can qualify for such permits or licensure. If any of these agencies deemed our activities to require additional permits or licensure, we would be required to either obtain such permits or licensure, if possible, or modify the types of business models we can utilize in the affected jurisdiction(s).

ENVIRONMENTAL, HEALTH AND SAFETY LAWS

Our imaging services involve the controlled storage, use and disposal of material containing radioactive isotopes. While this material has a short half-life, meaning it quickly breaks down into inert, or non-radioactive substances, using such materials presents the risk of accidental environmental contamination and physical injury. We are subject to federal, state and local regulations governing the use, storage, handling and disposal of materials and waste products. Although we believe that our safety procedures for handling and disposing of these hazardous materials comply with the standards prescribed by law and regulation, we cannot completely eliminate the risk of accidental contamination or injury from those hazardous materials. In the event of an accident, we could be held liable for any damages that result, and any liability could exceed the limits or fall outside the coverage of our insurance. We may not be able to maintain insurance on acceptable terms, or at all. We could incur significant costs and the diversion of our management's attention in order to comply with current or future environmental laws and regulations. We have not had material expenses related to environmental, health and safety laws or regulations to date and we have no inspection for which a plan of correction has not been accepted.

U.S. FOOD AND DRUG ADMINISTRATION, OR FDA, AND STATE OR FOREIGN APPROVALS

The manufacture and sale of medical devices intended for commercial distribution are subject to extensive governmental regulation in the United States. Medical devices are regulated in the United States primarily by the FDA and also by certain similar state agencies, such as the California Food and Drug Branch. The FDA requires that medical devices be manufactured in registered establishments. California's Food and Drug Branch requires medical device manufacturers to obtain a Medical Device Manufacturing License.

As part of the regulatory framework, medical devices require pre-market clearance (demonstrating substantial equivalence to a legally marketed device) or pre-market approval (indicating the device is safe and effective for intended use) prior to commercial distribution. In addition, certain material changes or modifications to, and changes in intended use of, medical devices also are subject to FDA review and clearance or approval. The FDA regulates the research, testing, manufacture, safety, effectiveness, labeling, storage, record keeping, promotion and distribution of medical devices in the United States and the export of unapproved medical devices from the United States to other countries. Noncompliance with applicable requirements can result in failure of the government to grant pre-market clearance or approval for devices, withdrawal or suspension of approval, total or partial suspension of production, fines, injunctions, civil penalties, refunds, recall or seizure of products and criminal prosecution. The State of California imposes similar state requirements and may impose similar sanctions on us.

One way a new device can be introduced into the market in the United States is for the manufacturer or distributor to obtain FDA clearance by a 510(k) notification that such device is substantially equivalent to a prior approved device. The FDA requires a rigorous demonstration of substantial equivalence. A medical device manufacturer must obtain a new 510(k) each time it makes a change or modification to a legally marketed device that could significantly affect the safety or effectiveness of the device, or where there is a major change or modification in the intended use of the device or a new indication for use of the device. When any change or modification is made to a device or its intended use, the manufacturer is expected to make the initial determination as to whether the change or modification is of a kind that would necessitate the

filing of a new 510(k). We have received 510(k) clearance to market our 2020TC Imager camera and SPECTour chair, and may require similar FDA clearances for additional products or improvements to our current products.

Any products manufactured or distributed by us are subject to continuing regulation by the FDA and the State of California, which includes record keeping requirements, reporting of adverse experience with the use of the device, Good Manufacturing Practices requirements and post-market surveillance. It may also include post-market registry and other actions deemed necessary by the FDA.

Sales of medical device products outside the United States are subject to foreign regulatory requirements that vary from country to country. The time required to obtain approvals required by foreign countries may be longer or shorter than that required for FDA clearance, and requirements for licensing may differ from FDA requirements.

We will spend considerable time and effort to comply with the FDA, state, and foreign regulatory requirements described above. Any failure to obtain and maintain compliance with such requirements could have a material adverse effect on our business and subject us to sanction.

FACILITIES

As of June 30, 2001, we lease in aggregate approximately 48,000 square feet in San Diego, California. These facilities serve as our executive headquarters and as the base for our marketing and product support operations, research and development and manufacturing activities. These leased facilities also include approximately 7,000 square feet of clean room space.

In addition, Digirad Imaging Solutions, our wholly-owned subsidiary, leases office space in eight locations in Indiana, Maryland, New Jersey, North Carolina, Ohio, Pennsylvania and Florida which together represent approximately 18,000 combined square feet of office space These leased facilities serve as a base for the marketing and imaging services operations of Digirad Imaging Solutions.

EMPLOYEES

As of June 30, 2001, we had 257 employees, including 18 in our research and development department, 43 in our sales and marketing department, 105 in our manufacturing department, 25 in general and administrative functions and 66 in mobile imaging services operations. We believe that our relations with our employees are good.

LEGAL PROCEEDINGS

In July 2001, we were served with notice that a complaint had been filed by Medical Management Concepts, Inc. in the United States District Court for the Eastern District of Pennsylvania. The complaint alleges, among other things, breach of the terms of a Services Agreement and an Employee Lease Agreement, each dated September 2000 and entered into by and between our wholly owned subsidiary, Digirad Imaging Systems, Inc., and Medical Management Concepts as part of our acquisition of some of the customer contracts and select assets relating to the mobile nuclear imaging services of Nuclear Imaging Systems, Inc. and Cardiovascular Concepts, P.C. This complaint seeks recovery of damages for approximately $81,000 plus 12.5% of the adjusted estimated net revenue generated from gross sums billed to our mobile nuclear imaging customers from May 1, 2001 to October 31, 2003. We intend to vigorously defend against this complaint.

EXECUTIVE OFFICERS, DIRECTORS AND KEY EMPLOYEES

The following table sets forth certain information regarding our executive officers, key employees and directors as of August 23, 2001:

NAME	AGE	POSITION(S)
EXECUTIVE OFFICERS AND KEY EMPLOYEES:		
R. Scott Huennekens	37	President, Chief Executive Officer and Director
Gary J.G.		

Atkinson..... 49
Vice President of Finance and Chief Financial Officer Richard L.
Conwell..... 50
Vice President of Marketing Robert E.
Johnson..... 44
Vice President of Sales and Service John F.
Sheridan.....
46 Vice President of Operations David M.
Sheehan..... 38
President, Digirad Imaging Solutions, Inc.
DIRECTORS: Timothy J.
Wollaeger(1)..... 57
Chairman of the Board of Directors R. King
Nelson(2).....
44 Director Brad
Nutter.....
49 Director Kenneth E. Olson(1)
(2)..... 64 Director
Douglas Reed, M.D.
(2)..... 47 Director

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(1) Members of Compensation Committee

(2) Members of Audit Committee

R. SCOTT HUENNEKENS has been our President and a member of our board of directors since May 1999 and our Chief Executive Officer since June 1999. Prior to being appointed as our President and Chief Executive Officer, from March 1997 to April 1999, Mr. Huennekens served as our Chief Financial Officer and Vice President of Sales and Marketing. Prior to joining us, from July 1993 to March 1997, Mr. Huennekens held various positions at Baxter Healthcare Corporation, a medical products and services company, including Vice President of Sales & Marketing for the Novacor division and its sales of left ventricular assist devices, and Business Unit Manager/Director of Marketing for the Bentley division and its sales of cardiopulmonary products. Mr. Huennekens is a Certified Public Accountant and received a B.S. in business administration from the University of Southern California and an M.B.A. from the Harvard Business School.

GARY J.G. ATKINSON has been our Vice President of Finance and Chief Financial Officer since May 2001. Prior to joining us, from April 2000 to February 2001, Mr. Atkinson served as Chief Financial Officer at Situs Corporation, a company which develops drugs and drug delivery devices for intravesical applications. Prior to that, from November 1992 to April 2000, Mr. Atkinson served as Vice President of Finance at Isis Pharmaceuticals, a publicly held pharmaceutical research and development company. Mr. Atkinson is a Certified Public Accountant and received a B.S. from Brigham Young University.

RICHARD L. CONWELL has been our Vice President of Marketing since January 2001. From January 1998 to January 2001, Mr. Conwell served as our Vice President of Research and Development. From June 1995 to January 1998, Mr. Conwell served as our Vice President of Operations. Prior to joining us, Mr. Conwell served as Vice President of Thermo Gamma-Metrics, a company which develops and markets on-line, high-speed process-optimization systems for raw-materials analysis, where he was

responsible for the company's bulk material analyzer business. Mr. Conwell received a B.S. in physics and computer science from Ball State University.

ROBERT E. JOHNSON has been our Vice President of Sales and Service since April 1999. Prior to joining us, from February 1993 to March 1999, Mr. Johnson served as Region Vice President and Vice President of United States Sales for ADAC Laboratories, a provider of nuclear medicine and radiation therapy planning systems. Prior to that, Mr. Johnson held various sales management and sales positions with Siemens Medical Systems, a company that develops and manufactures medical equipment. Mr. Johnson received a B.A. in marketing from the University of South Florida.

JOHN F. SHERIDAN has been our Vice President of Operations since March 1998 and leads the development and manufacturing efforts for our scintillator/photodiode detector system. Prior to joining us, from October 1983 to March 1998, Mr. Sheridan held various positions, including Director of Operations, at Analog Devices, Inc., a semiconductor company that develops, manufacturers and markets high performance integrated circuits used in signal-processing applications. Mr. Sheridan received a B.S. in chemistry from the University of West Florida and an M.B.A. from Boston University.

DAVID M. SHEEHAN has been the President of Digirad Imaging Solutions, Inc., our wholly owned subsidiary, since September 2000. Prior to joining us, from May 1999 to September 2000, Mr. Sheehan served as the President and Chief Executive Officer of Rapidcare.com, an e-health company that connects physicians with families and children who suffer from chronic disease. Prior to that, from May 1997 to May 1999, Mr. Sheehan served as Vice President of Sales & Marketing for a division of Baxter Healthcare Corporation which provided cardiopulmonary services to hospitals. Prior to that, from July 1991 to May 1997, Mr. Sheehan worked at Haemonetics Corporation, a supplier of blood processing services and equipment, in various sales, marketing, and business development positions. Mr. Sheehan received a B.S. in mechanical engineering from Worcester Polytechnic Institute and an M.B.A. from the Tuck School of Business at Dartmouth College.

TIMOTHY J. WOLLAEGER has been a member of our board of directors since June 1994, and our Chairman since January 1996. In addition, Mr. Wollaeger served as our Chief Executive Officer in May 1999. Mr. Wollaeger is the general partner of Kingsbury Associates, L. P., a venture capital firm he founded in December 1993 which focuses on investments in the healthcare industry. From May 1990 until December 1993, Mr. Wollaeger served as Senior Vice President and a director of Columbia Hospital Corporation, a hospital management company now known as HCA Healthcare Corporation. From October 1986 until July 1993, Mr. Wollaeger was a general partner of Biovest Partners, a seed venture capital firm. Mr. Wollaeger is chairman of the board of directors of Biosite Incorporated. Mr. Wollaeger received a B.A. in economics from Yale University and an M.B.A. from Stanford University.

R. KING NELSON has been a member of our board of directors since May 2000. Since May 1999, Mr. Nelson has served as the Chief Executive Officer of VenPro Corporation, a medical device company which develops bioprosthetic implants for venous vascular and cardiovascular medicine. Prior to that, from January 1996 to December 1998, Mr. Nelson served as President of the perfusion service business of Baxter Healthcare Corporation. Prior to that, from January 1980 to December 1995, Mr. Nelson held various positions at Baxter Healthcare Corporation. Mr. Nelson received a B.S. from Texas Tech University and an M.B.A. in international business from the University of Miami.

BRAD NUTTER has been a member of our board of directors since August 2001. From February 2000 to October 2000, Mr. Nutter served as Executive Vice President of Gambro AB, an international medical technology and healthcare company, and President and Chief Executive Officer of Gambro Healthcare, a division of Gambro AB which provides dialysis services to out-patient centers. Prior to that, from

June 1997 to January 2000, Mr. Nutter served as Executive Vice President and Chief Operating Officer of Syncor International Corporation, an international provider of radiopharmaceuticals and medical imaging services. From May 1996 to June 1997, Mr. Nutter served as a partner at The Align Group, a privately-held international healthcare marketing organization, which Mr. Nutter founded. Prior to that, from January 1995 to April 1996, Mr. Nutter held various positions, including Senior Vice President of Corporate Marketing, at Sunrise Medial, Inc., an international healthcare manufacturer of homecare and institutional products. Mr. Nutter received a B.A. in business administration from Texas Christian University.

KENNETH E. OLSON has been a member of our board of directors since March 1996. From December 1990 to February 1996 and from March 1997 to June 1998, Mr. Olson served as Chief Executive Officer at Proxima Corporation, a supplier of display projection systems for professional desktop computers. Mr. Olson also serves on the board of directors for Avanir Pharmaceuticals and WD-40 Company. Mr. Olson received a B.S. in electrical engineering from the University of California at Los Angeles and an M.B.A. from Pepperdine University.

DOUGLAS REED, M.D. has been a member of our board of directors since September 2000. He is a managing director of Vector Fund Management, a venture capital firm which focuses on investments in the life sciences and healthcare industry. Prior to that, from October 1998 to July 2000, Dr. Reed served as Vice President of Business Development for GelTex Pharmaceuticals, Inc., a company that develops and markets non-absorbed polymer drugs. From April 1996 to September 1998, Dr. Reed served as Vice President of Business Development at NPS Pharmaceuticals, Inc., a company which develops small molecule drugs and recombinant peptides. From June 1988 to April 1996, Dr. Reed served as Vice President at S.R. One, Limited, a venture capital fund focused on investments in biopharmaceuticals and the life sciences. Dr. Reed received a B.A. in biology and an M.D., each from the University of Missouri--Kansas City, and an M.B.A. from the Wharton School at the University of Pennsylvania. Dr. Reed is board certified as a neuro-radiologist and has held faculty positions at the University of Washington and Yale University in the department of radiology.

COMPOSITION OF OUR BOARD OF DIRECTORS

We currently have six directors. Upon completion of this offering, our amended and restated certificate of incorporation will provide for a classified board of directors consisting of three classes of directors, each serving a staggered three-year term. As a result, a portion of our board of directors will be elected each year. To implement the classified structure, two of the nominees to the board of directors will be elected to a one-year term, two will be elected to a two-year term and two will be elected to a three-year term. After the offering, directors will be elected for three-year terms. Dr. Reed and Mr. Nutter will be designated Class I Directors, whose terms expire at the 2002 annual meeting of stockholders. Messrs. Olson and Wollaeger will be designated Class II Directors, whose terms expire at the 2003 annual meeting of stockholders. Messrs. Huennekens and Nelson will be designated the Class III Directors, whose terms expire at the 2004 annual meeting of the stockholders. This classification of the board of directors may delay or prevent a change in control of our company or in our management. See "Description of capital stock--Possible Anti-Takeover Matters."

BOARD COMMITTEES

- AUDIT COMMITTEE--The audit committee of the board of directors reviews, acts on and reports to the board of directors with respect to various auditing and accounting matters, including the recommendation of our auditors, the scope of the annual audits, fees to be paid to the auditors, the performance of our independent auditors and our accounting practices. As of the closing of this offering, the members of the audit committee will be Messrs. Nelson and Olson and Dr. Reed.

- COMPENSATION COMMITTEE--The compensation committee of the board of directors recommends, reviews and oversees the salaries, benefits and stock option plans for our executive officers, employees, consultants, directors and other individuals compensated by us. The compensation committee also administers our compensation plans. As of the closing of this offering, the members of the compensation committee will be Messrs. Olson and Wollaeger.

DIRECTOR COMPENSATION

All directors are reimbursed for the reasonable expenses of attending the meetings of the board of directors or committees. We will also be granting options to our outside directors as compensation, as described below under the heading "Benefit plans--Automatic Option Grant Program."

From time to time during the fiscal year ended December 31, 2000, some of our directors were granted options to purchase shares of our common stock under our 1998 Stock Option/Stock Issuance Plan. For information concerning these grants, please see the description under the heading "Certain relationships and related transactions--Option Agreements with Directors."

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Our compensation committee consists of Messrs. Olson and Wollaeger. Neither member of the compensation committee is currently an officer or employee of ours. Mr. Wollaeger served as our Chief Executive Officer for the month of May 1999. Prior to the formation of the compensation committee, the board of directors as a whole made decisions relating to compensation of our executive officers. Upon completion of this offering, the compensation committee will make all compensation decisions regarding our executive officers.

EXECUTIVE COMPENSATION

The following table sets forth the compensation received during the fiscal year ended December 31, 2000 by our Chief Executive Officer, the three other most highly compensated executive officers who were serving at the end of the fiscal year ended December 31, 2000 whose annual salaries and bonuses exceeded $100,000 and to David M. Sheehan, the President of Digirad Imaging Solutions. We refer to these officers as our named executive officers in other parts of this prospectus.

EXECUTIVE COMPENSATION TABLE

	LONG-TERM COMPENSATION AWARDS			
	ANNUAL COMPENSATION			NUMBER OF

SECURITIES ----------
-- UNDERLYING NAME AND PRINCIPAL
POSITION(S) SALARY BONUS OTHER OPTIONS -

---------- R. Scott
Huennekens
.....
$213,462 $70,000 -- 575,000 President
and Chief Executive Officer Robert E.
Johnson
.....
$155,423 -- $85,000(1) 200,000 Vice
President of Sales and Service John F.
Sheridan
.....
$171,904 $35,000 $19,800(2) 150,000 Vice
President of Operations Richard L.
Conwell
.....
$152,557 $15,000 -- 50,000 Vice
President of Marketing David M.
Sheehan(3)
..... $
47,308 $ 9,500 -- 400,000 President,
Digirad Imaging Solutions

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(1) Consists of commissions paid to Mr. Johnson for the fiscal year ended December 31, 2000.

(2) Consists of $15,000 paid to Mr. Sheridan for relocation expenses and $4,800 in benefits received under our health and benefit plans.

(3) Mr. Sheehan commenced his employment as President of Digirad Imaging Solutions, Inc. in September 2000 with an annual base salary of $175,000.

OPTION GRANTS

The following table sets forth information concerning stock options granted to our named executive officers during the fiscal year ended December 31, 2000:

OPTION GRANTS IN LAST FISCAL YEAR

POTENTIAL
POTENTIAL
INDIVIDUAL
GRANTS
REALIZABLE
VALUE AT
REALIZABLE
VALUE AT ---

-- ASSUMED
ANNUAL
ASSUMED
ANNUAL
NUMBER OF
PERCENTAGE
OF RATES OF
STOCK RATES
OF STOCK
SECURITIES
TOTAL
OPTIONS
EXERCISE
PRICE
APPRECIATION
PRICE
APPRECIATION
UNDERLYING
GRANTED TO
PRICE FOR
OPTION
TERM(1) FOR
OPTION
TERM(2)
OPTIONS
EMPLOYEES IN

PER EXPIRATION - ------------ -------- --- ------------ ------ NAME GRANTED FISCAL YEAR SHARE DATE 5% 10% 5% 10% -------- ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ -------- R. Scott Huennekens.. 575,000 22.3% $0.35 03/09/10 $126,565 $320,741 Robert E. Johnson.... 200,000 7.8% $0.35 03/09/10 $ 44,023 $111,562 John F. Sheridan..... 150,000 5.8% $0.35 03/09/10 $ 33,017 $ 83,671 Richard L. Conwell... 50,000 1.9% $0.35 03/09/10 $ 11,006 $ 27,890 David M. Sheehan..... 400,000 15.5% $0.50 12/29/10 $125,779 $318,748

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(1) Potential realizable value is based upon fair market value of our common stock on the grant date of the options as determined by our board of directors.

(2) Potential realizable value is based upon the initial public offering price of our common stock of $.

The figures above represent options to purchase shares of our common stock granted under our 1998 Stock Option/Stock Issuance Plan. We granted options to purchase an aggregate of 2,574,964 shares of our common stock in 2000. The options granted to our employees typically vest in a 25% increment on the first annual anniversary of the date of grant and thereafter vest on a daily basis over a three-year period. The options granted to the named executive officers listed in the table above began to vest on a daily basis over a four-year period beginning on each of their respective dates of grant. Options granted to the

persons listed above expire 10 years from the dates of grant.

The potential realizable value at assumed annual rates of stock price appreciation for the option term represents hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The 5% and 10% assumed annual rates of compounded stock price appreciation are required by rules of the Securities and Exchange Commission and do not represent our estimate or projection of our future common stock prices. These amounts represent assumed rates of appreciation in the value of our common stock from the fair market value on the date of grant. Actual gains, if any, on stock option exercises are dependent on the future performance of our common stock and overall stock market conditions. The actual value realized may be greater or less than the potential realizable value set forth in the table.

We have never granted any stock appreciation rights.

OPTIONS EXERCISED AND YEAR-END VALUES

The following table sets forth information concerning the number and value of options exercised by each of the named executive officers as of December 31, 2000 and the number and value of unexercised options held by each of the named executive officers as of December 31, 2000. Options shown as exercisable in the table below are immediately exercisable; however, we have the right to purchase the shares of common stock underlying some of these options upon termination of the holder's employment with us. There was no public trading price for the common stock as of December 31, 2000. Accordingly, the value of unexercised in-the-money options at December 31, 2000 represents an amount equal to the difference between the assumed fair market value of $0.50 of the common stock as determined by our board of directors and the applicable exercise price per share, multiplied by the number of unexercised in-the-money options. An option is in-the-money if the fair market value of the underlying shares exceeds the exercise price of the options.

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

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 2000		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 2000(2)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
R. Scott Huennekens	28,572	$4,286	1,221,428	--	$216,214	--
Robert E. Johnson	28,572	$4,286	421,428	--	$ 63,214	--
John F. Sheridan	28,572	$4,286	496,428	--	$ 94,464	--
Richard L. Conwell	28,572	$4,286	346,428	--	$ 76,964	--
David M. Sheehan	--	--	400,000	--	--	--

2000(3) ----------

NAME EXERCISABLE
UNEXERCISABLE ----

--------- R. Scott
Huennekens.....
-- Robert E.
Johnson.... --
John F.
Sheridan..... --
Richard L.
Conwell... --
David M.
Sheehan..... --

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(1) Amount based on the difference between the fair market value of our common stock on the date of exercise as determined by our board of directors, and the exercise price of the option.

(2) Amount based on the difference between the fair market value of our common stock on December 31, 2000 of $0.50, as determined by our board of directors, and the exercise price of the option.

(3) Amount based on the difference between the initial public offering price of our common stock and the exercise price of the option.

BENEFIT PLANS

2001 STOCK INCENTIVE PLAN

INTRODUCTION--Our 2001 Stock Incentive Plan is intended to serve as the successor equity incentive program to our 1995 Stock Option Plan, 1997 Stock Option/Stock Issuance Plan and 1998 Stock Option/Stock Issuance Plan, which we collectively refer to as our predecessor plans. Our 2001 incentive plan is to be adopted by our board of directors, and we intend to seek the approval of our stockholders, prior to the closing of this offering. Our 2001 incentive plan will become effective on the date the underwriting agreement for this offering is signed. At that time, all outstanding options under the predecessor plans will be transferred to our 2001 incentive plan, and no further option grants will be made under those predecessor plans. The transferred options will continue to be governed by their existing terms, unless our compensation committee elects to extend one or more features of our 2001 incentive plan to those options. Except as otherwise noted below, the transferred options will have substantially the same terms as in effect for grants made under the discretionary option grant program of our 2001 incentive plan.

SHARE RESERVE--Twelve million shares of common stock have been authorized for issuance under our 2001 incentive plan. Such share reserve consists of the number of shares we estimate will be carried over from our predecessor plans, including the shares subject to outstanding options thereunder, plus an additional increase of approximately 3,500,000 shares. The number of shares of common stock reserved for issuance under our 2001 incentive plan will automatically increase on the first trading day in January each calendar year, beginning in calendar year 2002, by an amount equal to 2% of the total number of shares of common stock outstanding on the last trading day in December of the preceding calendar year.

EQUITY INCENTIVE PROGRAMS--Our 2001 incentive plan is divided into five separate components:

- the discretionary option grant program, under which eligible individuals in our employ or service may be granted options to purchase shares of common stock at an exercise price not less than 100% of the fair market value of those shares on the grant date;

- the stock issuance program, under which such individuals may be issued shares of common stock directly, through the purchase of such shares at a price not less than 100% of their fair market value at the time of issuance or as a bonus tied to the attainment of performance milestones or the completion of a specified period of service;

- the salary investment option grant program, under which our executive

officers and other highly compensated employees may be given the opportunity to apply a portion of their base salary to the acquisition of special below-market stock option grants;

- the automatic option grant program, under which option grants will automatically be made at periodic intervals to our non-employee board members to purchase shares of common stock at an exercise price equal to 100% of the fair market value of those shares on the grant date; and

- the director fee option grant program, under which our non-employee board members may be given the opportunity to apply a portion of the annual retainer fee otherwise payable to them in cash each year to the acquisition of special below-market option grants.

ELIGIBILITY--The individuals eligible to participate in our 2001 incentive plan include our officers and other employees, our non-employee board members and any consultants we hire.

ADMINISTRATION--The discretionary option grant program and the stock issuance program will be administered by the compensation committee. This committee will determine which eligible individuals are to receive option grants or stock issuances under those programs, the time or times when such option grants or stock issuances are to be made, the number of shares subject to each such grant or issuance, the status of any granted option as either an incentive stock option or a non-statutory stock option under the federal tax laws, the vesting schedule to be in effect for the option grant or stock issuance and the maximum term for which any granted option is to remain outstanding. The compensation committee will also have the exclusive authority to select the executive officers and other highly compensated employees who may participate in the salary investment option grant program in the event that program is activated for one or more calendar years.

PLAN FEATURES--Our 2001 incentive plan will include the following features:

- the exercise price for the shares of common stock subject to option grants made under our 2001 incentive plan may be paid in cash or in shares of common stock valued at fair market value on the exercise date. The option may also be exercised through a same-day sale program without any cash outlay by the optionee. In addition, the plan administrator may provide financial assistance to one or more optionees in the exercise of their outstanding options or the purchase of their unvested shares by allowing such individuals to deliver a full-recourse, interest-bearing promissory note in payment of the exercise price and any associated withholding taxes incurred in connection with such exercise or purchase;

- the compensation committee will have the authority to cancel outstanding options under the discretionary option grant program, including options transferred from the predecessor plans, in return for the grant of new options for the same or a different number of option shares with an exercise price per share based upon the fair market value of our common stock on the new grant date; and

- stock appreciation rights are authorized for issuance under the discretionary option grant program. Such rights will provide the holders with the election to surrender their outstanding options for an appreciation distribution from us equal to the fair market value of the vested shares of common stock subject to the surrendered option, less the aggregate exercise price payable for those shares. Such appreciation distribution may be made in cash or in shares of common stock. None of the outstanding options under our predecessor plans contain any stock appreciation rights.

The 2001 incentive plan will include the following change in control provisions which may result in the accelerated vesting of outstanding option grants and stock issuances:

- in the event that we are acquired by merger or asset sale, each outstanding option under the discretionary option grant program which is not to be assumed by the successor corporation will automatically accelerate in full, and all unvested shares under the discretionary option grant and stock issuance programs will immediately vest, except to the extent our repurchase rights with respect to those shares are to be assigned to the successor corporation;

- the compensation committee will have complete discretion to structure one or more options under the discretionary option grant program so those options will vest as to all the option shares in the event those options are assumed in the acquisition but the optionee's service with us or the acquiring entity is subsequently terminated. The vesting of outstanding shares under the stock issuance program may be accelerated upon similar terms and conditions;

- the compensation committee will also have the authority to grant options which will immediately vest in the event we are acquired, whether or not those options are assumed by the successor corporation;

- the compensation committee may grant options and structure repurchase rights so that the shares subject to those options or repurchase rights will immediately vest in connection with a successful tender offer for more than 50% of our outstanding voting stock or a change in the majority of our board through one or more contested elections for board membership. Such accelerated vesting may occur either at the time of such transaction or upon the subsequent termination of the individual's service; and

- the options currently outstanding under our predecessor plans will immediately vest in the event we are acquired by merger or sale of substantially all our assets, unless those options are assumed by the acquiring entity or our repurchase rights with respect to any unvested shares subject to those options are assigned to such entity. However, a number of those options may also contain a special acceleration provision pursuant to which the shares subject to those options will immediately vest upon an involuntary termination of the optionee's employment within 18 months following an acquisition in which the repurchase rights with respect to those shares are assigned to the acquiring entity.

SALARY INVESTMENT OPTION GRANT PROGRAM--In the event the compensation committee elects to activate the salary investment option grant program for one or more calendar years, each of our executive officers and other highly compensated employees selected for participation may elect, prior to the start of the calendar year, to reduce his or her base salary for that calendar year by a specified dollar amount not less than $10,000 nor more than $50,000. Each selected individual who files such a timely election will automatically be granted, on the first trading day in January of the calendar year for which his or her salary reduction is to be in effect, an option to purchase that number of shares of common stock determined by dividing the salary reduction amount by two-thirds of the fair market value per share of our common stock on the grant date. The option will be exercisable at a price per share equal to one-third of the fair market value of the option shares on the grant date. As a result, the option will be structured so that the fair market value of the option shares on the grant date less the exercise price payable for those shares will be equal to the amount by which the optionee's salary is reduced under the program. The option will become exercisable in a series of 12 equal monthly installments over the calendar year for which the salary reduction is to be in effect.

AUTOMATIC OPTION GRANT PROGRAM--Under the automatic option grant program, each individual who first becomes a non-employee board member at any time after the completion of this offering will automatically receive on the date such individual joins the board an option grant for a number of shares of common stock to be determined prior to the closing of this offering, provided such individual has not been in our prior employ. In addition, on the date of each annual stockholders meeting held after the completion of this offering, each non-employee board member who is to continue to serve as a non-employee board member, including each of our current non-employee board members, will automatically be granted an option to purchase a number of shares of common stock to be determined prior to the closing of this offering, provided such individual has served on our board for at least six months.

Each automatic grant will have an exercise price per share equal to the fair market value per share of our common stock on the grant date and will have a term of 10 years, subject to earlier termination following the optionee's cessation of board service. The option will be immediately exercisable for all of the option shares; however, we may repurchase, at the exercise price paid per share, any shares purchased under the option which are not vested at the time of the optionee's cessation of board

service. The shares subject to each initial automatic option grant will vest in a series of 3 successive annual installments upon the optionee's completion of each year of board service over the 3-year period measured from the grant date. The shares subject to each annual automatic option grant will vest upon the optionee's completion of one year of board service measured from the grant date. However, the shares will immediately vest in full upon certain changes in control or ownership or upon the optionee's death or disability while a board member.

DIRECTOR FEE OPTION GRANT PROGRAM--Should the director fee option grant program

be activated in the future, each non-employee board member will have the opportunity to apply all or a portion of any cash retainer fee for the year to the acquisition of a below-market option grant. The option grant will automatically be made on the first trading day in January in the year for which the retainer fee would otherwise be payable in cash. The option will have an exercise price per share equal to one-third of the fair market value of the option shares on the grant date, and the number of shares subject to the option will be determined by dividing the amount of the retainer fee applied to the program by two-thirds of the fair market value per share of our common stock on the grant date. As a result, the option will be structured so that the fair market value of the option shares on the grant date less the exercise price payable for those shares will be equal to the portion of the retainer fee applied to that option. The option will become exercisable in a series of 12 equal monthly installments over the calendar year for which the election is to be in effect. However, the option will become immediately exercisable for all the option shares upon the optionee's death or disability while serving as a board member.

Our 2001 incentive plan will also have the following features:

- outstanding options under the salary investment and director fee option grant programs will immediately vest if we are acquired by a merger or asset sale or if there is a successful tender offer for more than 50% of our outstanding voting stock or a change in the majority of our board through one or more contested elections;

- limited stock appreciation rights will automatically be included as part of each grant made under the salary investment option grant program and the automatic and director fee option grant programs, and these rights may also be granted to one or more officers as part of their option grants under the discretionary option grant program. Options with this feature may be surrendered to us upon the successful completion of a hostile tender offer for more than 50% of our outstanding voting stock. In return for the surrendered option, the optionee will be entitled to a cash distribution from us in an amount per surrendered option share based upon the highest price per share of our common stock paid in that tender offer; and

- the board may amend or modify the 2001 incentive plan at any time, subject to any required stockholder approval. The 2001 incentive plan will terminate no later than ten years after the completion of this offering.

EMPLOYMENT ARRANGEMENTS

None of our employees are employed for a specified term, and each employee's employment with us is subject to termination at any time by either party for any reason, with or without cause.

All of our current employees have entered into agreements with us which contain restrictions and covenants relating to the protection of our confidential information.

MANAGEMENT

LIMITATIONS ON DIRECTORS' LIABILITY AND INDEMNIFICATION

Our certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for:

- any breach of their duty of loyalty to the corporation or its stockholders;

- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

- unlawful payments of dividends or unlawful stock repurchases or redemptions; and

- any transaction from which the director derived an improper personal benefit.

The limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission. Our certificate of incorporation and bylaws provide that we will indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by law. We believe that indemnification under our bylaws covers at least negligence on the part of indemnified parties. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in their capacity as an officer, director, employee or other agent, regardless of whether the bylaws would permit indemnification.

We have entered into agreements to indemnify our directors and executive officers, in addition to the indemnification provided for in our bylaws. These agreements, among other things, provide for indemnification for judgments, fines, settlement amounts and expenses, including attorneys' fees incurred by the director, or executive officer in any action or proceeding, including any action by or in our right, arising out of the person's services as a director or executive officer, any of our subsidiaries or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

At present, there is no pending litigation or proceeding involving any of our directors, officers or employees in which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Certain relationships and related transactions

SALES OF SECURITIES

SERIES E PREFERRED STOCK FINANCING--From June 1998 to June 2000, we issued and sold 4,004,965 shares of Series E preferred stock to 17 accredited investors at a price of $3.036 per share. The shares of Series E preferred stock will automatically convert into 4,004,965 shares of common stock in connection with this offering. Investors owning 5% or more of our capital stock who participated in this transaction include:

	NUMBER OF SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF SERIES E PREFERRED STOCK	NUMBER OF SHARES OF SERIES E PREFERRED STOCK
Entities affiliated with Kingsbury Associates	329,380	329,380
Entities affiliated with Sorrento Associates	329,380	329,380
Entities affiliated with Vector Fund Management	329,379	329,379

Mr. Wollaeger, one of our directors, is a general partner of Kingsbury Associates, L.P., which is a general partner of Kingsbury Capital Partners, L.P., I, Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV. In this prospectus, we refer to Kingsbury Capital Partners, L.P., I, Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV, collectively, as entities affiliated with Kingsbury Associates.

In this prospectus, we refer to Sorrento Growth Partners I, L.P., Sorrento Ventures II, L.P., Sorrento Ventures III, L.P. and Sorrento Ventures CE, L.P., collectively, as entities affiliated with Sorrento Associates.

Dr. Reed, one of our directors, is a managing director of Vector Fund Management, L.L.C., which is a general partner of Vector Later-Stage Equity Fund, L.P., and is a managing director of Vector Fund Management, II, L.L.C., which is a general partner of Vector Later-Stage Equity Fund II, L.P. and Vector Later-Stage Equity Fund II (Q.P.), L.P. In this prospectus, we refer to Vector Later-Stage Equity Fund, L.P., Vector Later-Stage Equity Fund II, L.P., and Vector Later-Stage Equity Fund II (Q.P.), L.P., collectively, as entities affiliated with Vector Fund Management.

BRIDGE LOAN FINANCING AND ADDITIONAL SERIES E PREFERRED STOCK FINANCING--In September 2000, we issued and sold an aggregate of $2,000,000 of convertible promissory notes to 5 accredited investors. In November 2000, the convertible promissory notes automatically converted into 658,759 shares of Series E preferred stock at a price of $3.036 per share. In addition, in consideration for the bridge loans, we issued to the investors warrants to purchase up to 65,875 shares of our Series E preferred stock at an exercise price of $3.036 per share. These warrants will terminate in connection with this

offering if not previously exercised. Investors owning 5% or more of our capital stock who participated in this transaction include:

	NUMBER OF AGGREGATE NUMBER OF SHARES OF SERIES E NUMBER OF SHARES OF COMMON AGGREGATE PREFERRED STOCK WARRANTS TO STOCK ISSUABLE UPON PRINCIPAL ISSUED UPON PURCHASE CONVERSION OF SERIES E AMOUNT OF CONVERSION OF SHARES OF SERIES E PREFERRED STOCK AND INVESTORS PROMISSORY NOTE PROMISSORY NOTES PREFERRED STOCK WARRANTS
------ Entities affiliated with Kingsbury Associates.....	
$1,000,000	329,380
32,938	362,318
Entities affiliated with Vector Fund Management.....	
$ 500,000	164,689
16,468	181,157

ADDITIONAL SERIES E PREFERRED STOCK FINANCING--From November 2000 to April 2001, we issued and sold 5,125,463 shares of Series E preferred stock to 34 accredited investors at a price of $3.036 per share. The shares of Series E preferred stock will automatically convert into 5,125,463 shares of common stock in connection with this offering. Investors owning 5% or more of our capital stock who participated in this transaction include:

	NUMBER OF SHARES OF COMMON STOCK NUMBER OF ISSUABLE UPON SHARES OF SERIES E CONVERSION OF SERIES E INVESTORS PREFERRED STOCK PREFERRED STOCK
Entities affiliated with Merrill Lynch Ventures.....	658,761
658,761	Entities affiliated with Kingsbury Associates.....
454,380	454,380 Entities affiliated with Vector Fund Management..... 164,689
164,689	Palavacinni Partners, LLC.....
24,703	24,703

In this prospectus, we refer to Merrill Lynch Ventures, LLC and Merrill Lynch Ventures, L.P. 2001, collectively, as entities affiliated with Merrill Lynch Ventures.

Dr. Reed, one of our directors, is a member of Palavacinni Partners, LLC.

SERIES F PREFERRED STOCK FINANCING--In August 2001, we issued and sold 2,618,462 shares of Series F preferred stock to 25 accredited investors at a price of $3.25 per share. The shares of Series F preferred stock will automatically convert into 2,618,462 shares of common stock in connection with

this offering. Investors owning 5% or more of our capital stock and directors who participated in this transaction include:

INVESTORS	NUMBER OF SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF SERIES F PREFERRED STOCK	SHARES OF SERIES F PREFERRED STOCK
Entities affiliated with Kingsbury Associates	184,616	184,616
Entities affiliated with Vector Fund Management	153,847	153,847
Entities affiliated with Merrill Lynch Ventures	107,692	107,692
Entities affiliated with Sorrento Associates	76,923	76,923
Kenneth E. Olson Trust dated March 16, 1989	30,769	30,769
Palavacinni Partners, LLC	20,000	20,000

Mr. Olson, one of our directors, is the trustee of the Kenneth E. Olson Trust dated March 16, 1989.

Dr. Reed, one of our directors, is a member of Palavacinni Partners, LLC.

REGISTRATION RIGHTS--In connection with the preferred stock financings referenced above, we entered into agreements with the investors providing for registration rights with respect to their shares. For a more complete description of the rights we granted to these stockholders, please see "Description of capital stock--Registration Rights."

For additional information regarding the sale of securities to executive officers, directors and holders of more than 5% of our outstanding common stock, please see "Principal stockholders."

OPTION AGREEMENTS WITH DIRECTORS

Since January 1, 1998, we have granted options to purchase shares of our common stock to our directors in the following transactions:

NAME OF DIRECTOR	DATE OF GRANT	NUMBER OF SHARES	EXERCISE PRICE
Kenneth E. Olson	April 1998	3,000	$0.21
	April 1998	3,000	$0.25
	December 1998	5,000	$0.35
	May 1999	3,000	$0.35
	March 2000	5,000	$0.35
	May 2000	30,000	$0.50
	March 2001	5,000	$1.00
R. Scott Huennekens	December 1998	225,000	$0.35
	May 1999	220,000	$0.35
	March 2000	575,000	$0.35
	January 2001	120,000	$1.00
R. King Nelson	May 2000	50,000	$0.50
	March 2001	5,000	$1.00
Timothy J. Wollaeger	November 2000	30,000	$0.50
Brad Nutter	August 2001	50,000	$1.50

Principal stockholders

The following table sets forth information with respect to the beneficial ownership of our common stock as of August 23, 2001, as adjusted to reflect the sale of the shares of common stock in this offering by:

- each person or group of affiliated persons who we know beneficially owns 5%

or more of our common stock;

- each of our named executive officers listed in "Executive Compensation" above and our current Vice President and Chief Financial Officer;

- each of our current directors; and

- all of the executive officers and directors as a group.

Beneficial ownership is calculated according to the rules of the Securities and Exchange Commission. Except as indicated in the footnotes to this table, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable. The number of shares beneficially owned by a person includes the number of shares underlying options and warrants that are exercisable within 60 days from August 23, 2001. These shares are also deemed outstanding for the purpose of computing the percentage of outstanding shares owned by the person. The shares are not deemed outstanding, however, for the purpose of computing the percentage ownership of any other person. Percentage ownership is based upon 34,274,504 shares of common stock outstanding at August 23, 2001, assuming the conversion of all outstanding shares of preferred stock into common stock. Unless otherwise indicated, the address for each of the following stockholders is: c/o Digirad Corporation, 9350 Trade Place, San Diego, California 92126-6334.

NUMBER OF SHARES BENEFICIALLY OWNED	NUMBER OF SHARES UNDERLYING OPTIONS AND WARRANTS BENEFICIALLY OWNED	PERCENTAGE OF SHARES BEFORE OFFERING	PERCENTAGE OF SHARES AFTER OFFERING	NAME AND ADDRESS OF BENEFICIAL OWNER
6,615,721	132,938	19.2%	--	Entities affiliated with Kingsbury Associates(1)..., 3655 Nobel Drive, Suite 490 San Diego, CA 92122
5,106,807	16,468	14.9%	--	Entities affiliated with Vector Fund Management(2)..., 1751 Lake Cook Road, Suite 350 Deerfield, IL 60015
4,506,524	--	13.1%	--	Entities affiliated with Sorrento Associates(3)..., 4370 La Jolla Village Drive, Suite 1040 San Diego, CA 92122
2,234,051	--	6.5%	--	Entities affiliated with Merrill Lynch Ventures(4)..., 2 World Financial Center, 31st Floor New York, NY 10281
1,370,000	1,341,428	3.8%		R. Scott Huennekens...
550,000	521,428	1.6%		Robert E. Johnson...
575,000	546,428	1.7%		John F. Sheridan...
400,000	371,428	1.2%		Richard L. Conwell...
250,000	250,000	*		Gary J.G. Atkinson...
410,000	410,000	1.2%		David M. Sheehan...
6,645,721	132,938	19.3%		Timothy J. Wollaeger(5)...
55,000	55,000	*		R. King Nelson...
50,000	50,000	*		Brad Nutter...
296,770	166,000	*		Kenneth E. Olson(6)...
5,151,510	16,468	15.0%		Douglas Reed, M.D. (7)...
15,754,001	3,811,712	41.3%		All Executive Officers and Directors as a Group (11 persons)...

* Less than one percent.

(1) In this prospectus, we refer to Kingsbury Capital Partners, L.P., I, Kingsbury Capital Partners, L.P., II, Kingsbury Capital

Partners, L.P., III, and Kingsbury Capital Partners, L.P., IV, collectively, as entities affiliated with Kingsbury Capital Partners. Timothy J. Wollaeger, a member of our board of directors, is a general partner of Kingsbury Associates, L.P., which is a general partner of each of the previously-mentioned investment funds, and Mr. Wollaeger shares investment and voting power over these shares with the other general partners of Kingsbury Associates, L.P. Mr. Wollaeger disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest, if any.

(2) In this prospectus, we refer to Vector Later-Stage Equity Fund, L.P., Vector Later-Stage Equity Fund II, L.P., and Vector Later-Stage Equity Fund II (Q.P.), L.P., collectively, as entities affiliated with Vector Fund Management. Douglas Reed, M.D., a member of our board of directors, is a managing director of the general partner of each of the previously-mentioned investment funds, and Dr. Reed shares investment and voting power over these shares with the other managing directors of each of the general partners of these funds. Dr. Reed disclaims beneficial ownership of all such shares, except to the extent of his pecuniary interest, if any.

(3) In this prospectus, we refer to Sorrento Growth Partners I, L.P., Sorrento Ventures II, L.P., Sorrento Ventures III, L.P., and Sorrento Ventures CE, L.P., collectively, as entitles affiliated with Sorrento Associates.

(4) In this prospectus, we refer to Merrill Lynch Ventures, LLC and Merrill Lynch Ventures, L.P. 2001, collectively, as entitles affiliated with Merril Lynch Ventures.

(5) Includes 6,615,721 shares held by entities affiliated with Kingsbury Associates and 30,000 shares of common stock held by Mr. Wollaeger.

(6) Includes 130,770 shares held by the Kenneth E. Olson Trust dated March 16, 1989 and options to purchase 166,000 shares of common stock held by Mr. Olson.

(7) Includes 5,106,807 shares held by entities affiliated with Vector Fund Management and 44,703 shares held by Palivacinni Partners, LLC. Dr. Reed is a member of Palivacinni Partners, LLC and shares investment and voting power over these shares with the other members. Dr. Reed disclaims beneficial ownerhip of such shares except to the extent of his pecuniary interest, if any.

Description of capital stock

Upon the closing of this offering, our authorized capital stock will consist of 250,000,000 shares of common stock, $0.001 par value per share, and 10,000,000 shares of undesignated preferred stock, $0.001 par value per share.

The following description of our capital stock does not purport to be complete and is subject to and qualified by our certificate of incorporation and bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part, and by the provisions of applicable Delaware law.

COMMON STOCK

As of August 23, 2001, there were 4,526,474 shares of common stock outstanding. There will be shares of common stock outstanding upon the closing of this offering, which gives effect to the shares of common stock offered by us in this offering and the conversion of shares of preferred stock as discussed below. The outstanding shares of common stock are, and the shares offered by us in this offering will be, when issued in consideration for payment thereof, fully paid and nonassessable.

The following summarizes the rights of holders of our common stock:

- the holders of our common stock are entitled to dividends and other distributions as may be declared from time to time by the board of directors out of funds legally available for that purpose, if any;

- the holders of common stock have no preemptive or other subscription rights to purchase shares of our stock, nor are they entitled to the benefits of any redemption or sinking fund provisions;

- each holder of shares of common stock is entitled to one vote per share on all matters to be voted on by stockholders generally, including the election of directors;

- there are no cumulative voting rights; and

- upon our liquidation, dissolution or winding up, the holders of shares of common stock will be entitled to share ratably in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities and the payment of the liquidation preference of any outstanding preferred stock.

PREFERRED STOCK

As of August 23, 2001, there were 29,748,030 shares of redeemable convertible preferred stock outstanding. All outstanding shares of redeemable convertible preferred stock will be converted into 29,748,030 shares of common stock in connection with this offering and such shares of redeemable convertible preferred stock will no longer be authorized, issued or outstanding. In addition, if the final price per share of shares in this offering is less then $ per share, a small number of additional shares of common stock will be issued upon conversion of the Series F preferred stock.

Upon the closing of this offering, our board of directors will be authorized, without further stockholder approval, to issue from time to time one or more series of preferred stock and to fix or alter the designations, powers, preferences, rights and any qualifications, limitations or restrictions of the shares of such series, including:

- the number of shares constituting the series and the distinctive designation of the series;

- the dividend rate on the share of the series, whether dividends will be cumulative, and if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of the series;

- whether the series will have conversion privileges and, if so, the terms and conditions of conversion;

- whether the series will have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of the sinking fund;

- whether or not the shares of the series will be redeemable or exchangeable, and, if so, the dates, terms and conditions of redemption or exchange, as the case may be;

- whether the series will have voting rights in addition to the voting rights provided by law, and if so, the terms of the voting rights; and

- the rights of the shares of the series in the event of our voluntary or involuntary liquidation, dissolution or winding up and the relative rights or priority, if any, of payment of shares of the series.

The board of directors may authorize the issuance of preferred stock with terms and conditions which could discourage a takeover or other transaction that holders of some or a majority of common stock might believe to be in their best interests or in which holders of common stock might receive a premium for their shares over the then market price.

We have no present plans to issue any shares of preferred stock.

WARRANTS

As of August 23, 2001, we had outstanding warrants to purchase 603,578 shares of common stock, at a weighted average exercise price of $2.59 per share. Of the outstanding warrants, warrants to purchase 65,875 shares will terminate upon the closing of this offering and warrants to purchase 60,000 shares will expire if a consulting agreement is terminated before July 31, 2002.

In addition, we have entered into a consulting agreement under which we will issue additional warrants to purchase 10,000 shares of common stock at fair market value for every three digital cameras sold by the consultant, up to a maximum of 40,000 shares, and thereafter issue warrants to purchase 1,500 shares of common stock at fair market value for each of our digital cameras sold by the consultant.

OPTIONS

As of August 23, 2001, options to purchase an aggregate total of 5,952,426 shares of common stock were outstanding under our 1995 Stock Option Plan, our 1997 Stock Option/Stock Issuance Plan and our 1998 Stock Option/Stock Issuance Plan. Options to purchase a total of 4,725,883 shares of common stock remain available for grant under our option plans. Please see "Management--Benefit Plans" and "Shares eligible for future sale" for a detailed description of the stock option plans.

REGISTRATION RIGHTS

The holders of the shares of common stock which will be issued upon conversion of the preferred stock in connection with this offering, which holders are referred to below as our preferred investors, have the right to cause us to register their shares under the Securities Act of 1933 as follows:

- DEMAND REGISTRATION RIGHTS: Preferred investors holding at least 30% of the shares of common stock issued upon conversion of the preferred stock have the right to demand that we register their

shares, subject to limitations, commencing one year after the effective date of the registration statement for this offering. We are not required to effect more than two registrations pursuant to such demand registration rights;

- PIGGYBACK REGISTRATION RIGHTS: In the event we propose to register any shares of common stock either for our account or for the account of other security holders, our preferred investors are entitled to receive notice of such registration and to have their shares included in any such registration, subject to limitations; and

- S-3 REGISTRATION RIGHTS: At any time after we become eligible to file a registration statement on Form S-3, our preferred investors may require us to file up to two registration statements on Form S-3 during any twelve month period with respect to their shares of common stock, subject to limitations.

These registration rights are subject to conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares of common stock held by our preferred investors to be included in a registration. We are generally required to bear all of the expenses of all such registrations, including the reasonable fees of a single counsel acting on behalf of all selling holders, but excluding underwriting discounts and selling commissions. Registration of any of the shares of common stock held by our preferred investors would result in such shares becoming freely tradable without restriction under the Securities Act of 1933 immediately upon effectiveness of such registration.

POSSIBLE ANTI-TAKEOVER MATTERS

GENERAL--Provisions of Delaware law, as well as our certificate of incorporation and bylaws, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, control of us. Such provisions could limit the price that some investors might be willing to pay in the future for our common stock. These provisions of Delaware law and our certificate of incorporation and bylaws may also have the effect of discouraging or preventing certain types of transactions involving an actual or threatened change of control of us, including unsolicited takeover attempts, even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

DELAWARE TAKEOVER STATUTE--We are subject to the "business combination" provisions of Section 203 of the Delaware General Corporation Law. Subject to certain exceptions, Section 203 prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

- the transaction is approved by the board of directors prior to the date the interested stockholder obtained interested stockholder status;

- upon consummation of the transaction that resulted in the stockholders becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by (a) persons who are directors and also officers and (b) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- at or subsequent to the date the person became an interested stockholder, the business combination is approved by the board of directors and authorized at an annual or special meeting of

stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation's voting stock. This statute could prohibit or delay the accomplishment of mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us.

CHARTER AND BYLAW PROVISIONS--In addition, certain provisions of our certificate of incorporation and bylaws summarized in the following paragraphs may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the then market price for the shares held by stockholders.

- CLASSIFIED BOARD OF DIRECTORS; REMOVAL; FILLING VACANCIES AND AMENDMENT: Our certificate of incorporation and bylaws provide that the board will be divided into three classes of directors serving staggered, three-year terms. The classification of the board has the effect of requiring at least two annual stockholder meetings, instead of one, to replace a majority of members of the board. Subject to the rights of the holders of any outstanding series of preferred stock, the certificate of incorporation authorizes only the board to fill vacancies, including newly created directorships. Accordingly, this provision could prevent a stockholder from obtaining majority representation on the board by enlarging the board of directors and filling the new directorships with its own nominees. The certificate of incorporation also provides that directors may be removed by stockholders only for cause and only by the affirmative vote of holders of two-thirds of the outstanding shares of voting stock.

- STOCKHOLDER ACTION; SPECIAL MEETING OF STOCKHOLDERS: The certificate of incorporation provides that stockholders may not take action by written consent, but may only take action at duly called annual or special meetings of stockholders. The certificate of incorporation further provides that special meetings of our stockholders may be called by the chairman of the board of directors, the chief executive officer or a majority of the board of directors. This limitation on the right of stockholders to call a special meeting could make it more difficult for stockholders to initiate actions that are opposed by the board of directors. These actions could include the removal of an incumbent director or the election of a stockholder nominee as a director. They could also include the implementation of a rule requiring stockholders' ratification of specific defensive strategies that have been adopted by the board of directors with respect to unsolicited takeover bids. In addition, the limited ability of the stockholders to call a special meeting of stockholders may make it more difficult to change the existing board and management.

- ADVANCE NOTICE REQUIREMENTS FOR STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATION: The bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder's notice must be delivered to or mailed and received at our principal executive offices not less than 120 days prior to the date of our annual meeting. The bylaws also specify certain requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

- AUTHORIZED BUT UNISSUED SHARES: The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval. These additional

shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions, employee benefit plans and "poison pill" rights plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

NASDAQ NATIONAL MARKET

We have applied to list our common stock on the Nasdaq National Market under the trading symbol "DRAD."

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common stock is .

Shares eligible for future sale

Prior to this offering, there has been no public market for our common stock. We cannot predict what effect, if any, market sales of shares or the availability of shares for sale will have on the market price of our common stock prevailing from time to time. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after this offering, or the perception that such sales could occur. Such sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. Based upon the number of shares outstanding at August 23, 2001, upon the closing of this offering, we will have shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of options or warrants to purchase shares of our common stock. Of these shares, the shares being sold in this offering will be freely tradable without restriction or further registration under the Securities Act of 1933, unless these shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act of 1933. The remaining shares of our common stock were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act of 1933. These shares may be sold in the public market only if they are registered or if they qualify for an exemption from registration, such as Rule 144 or 701 under the Securities Act of 1933, which are summarized below. The remaining shares are eligible for sale in the public market as follows:

ELIGIBILITY OF RESTRICTED SHARES FOR SALE IN THE PUBLIC MARKET

NUMBER OF SHARES	DATE
	After the date of this prospectus (subject, in some cases, to volume limitations)
	At various times after 90 days from the date of this prospectus (subject, in some cases, to volume limitations)
	At various times after 180 days from the date of this prospectus (subject, in some cases, to volume limitations)

RULE 144

In general, under Rule 144 of the Securities Act of 1933 as currently in effect, beginning 90 days after the date of this offering, a person who has beneficially owned shares of our common stock for at least one year is entitled to sell, within any three month period, a number of shares of our common stock that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding; or

- the average weekly trading volume in our common stock during the four calendar weeks preceding the date on which notice of such sale is filed with the Securities and Exchange Commission.

Sales made under Rule 144 must also comply with manner of sale and notice requirements and are subject to the availability of current public information about us.

RULE 144(k)

Under Rule 144(k) of the Securities Act of 1933 as currently in effect, a person who is not deemed to have been our affiliate at any time during the 90 days preceding a sale, and who has beneficially

owned the shares proposed to be sold for at least two years, would be entitled to sell such shares under Rule 144(k) without regard to the volume limitations or the manner of sale, notice or public information requirements of Rule 144.

RULE 701

Under Rule 701 of the Securities Act of 1933 as currently in effect, any of our employees, consultants, directors or advisors who have purchased shares from us

under a stock option plan or other written agreement can resell those shares 90 days after the effective date of this offering in reliance on Rule 144 but without complying with some of its restrictions, including the holding period. The sale of such shares may still remain subject, however, to contractual restrictions contained in lock-up agreements, described below.

LOCK-UP AGREEMENTS

Each of our stockholders and holders of options and warrants to purchase shares of our common stock who individually own more than 1% of our common stock (assuming the exercise of such options or warrants), as well as each of our directors and officers, have entered into lock-up agreements pursuant to which they have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or any securities convertible into, or exercisable or exchangeable for, our common stock without the prior written consent of UBS Warburg for a period of 180 days from the date of this offering. Collectively, over 90% of our issued or issuable shares prior to this offering are subject to this lock-up agreement. Upon expiration of the lock-up agreements, shares will become eligible for sale in the public market, subject to volume and holding requirements of Rule 144 or 701 of the Securities Act of 1933.

STOCK PLANS

Following 90 days after the date of this prospectus, shares issued upon the exercise of options that we granted prior to the date of this offering will also be eligible for sale in the public market under Rule 701 of the Securities Act of 1933, as described above. As of August 23, 2001, options to purchase a total of 5,952,426 shares of common stock were outstanding. Each option grant is subject to a market stand-off provision, which allows us to restrict the sale of shares obtained through the exercise of options for up to 180 days from the date of this offering. Of these shares, shares may be eligible for sale in the public market beginning 180 days from the date of this prospectus.

We also intend to file a registration statement to register for resale an additional shares of common stock for issuance under our stock option plans. This registration statement will become effective immediately upon filing. Shares of common stock registered under this registration statement will be available for sale in the public market from time to time subject to vesting and the expiration of the market stand-off provisions referred to above.

Material United States federal tax consequences to non-United States holders of common stock

The following is a general discussion of the material United States federal income and estate tax considerations with respect to the ownership and disposition of our common stock applicable to non-U.S. holders. In general, a "Non-U.S. Holder" is any holder of our common stock other than:

- a citizen or individual resident of the United States,
- a corporation or other entity created or organized in the United States or under the laws of the United States or of any state or political subdivision of the United States,
- an estate, the income of which is included in gross income for United States federal income tax purposes regardless of its source, or
- a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

This discussion is based on current provisions of the Internal Revenue Code, Treasury Regulations promulgated under the Internal Revenue Code, judicial opinions, published positions of the Internal Revenue Service, and all other applicable authorities, all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of United States federal income and estate taxation or any aspects of state, local, or non-U.S. taxation, nor does it consider any specific facts or circumstances that may apply to particular Non-U.S. Holders that may be subject to special treatment under the United States federal income tax laws, such as insurance companies, tax-exempt organizations, financial institutions, brokers, dealers in securities, and United States expatriates.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE UNITED STATES FEDERAL, STATE, LOCAL AND NON-U.S. INCOME AND OTHER TAX CONSIDERATIONS OF ACQUIRING, HOLDING AND DISPOSING OF SHARES OF COMMON STOCK.

DIVIDENDS--In general, dividends paid to a Non-U.S. Holder will be subject to United States withholding tax at a 30% rate of the gross amount, or a lower rate prescribed by an applicable income tax treaty, unless the dividends are effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States. Dividends that are effectively connected with such a United States trade or business generally will not be subject to United States withholding tax if the Non-U.S. Holder files the required forms, including IRS Form W-8ECI, or any successor form, with the payor of the dividend, and generally will be subject to United States federal income tax on a net income basis, in the same manner as if the Non-U.S. Holder were a resident of the United States. A corporate Non-U.S. Holder that receives effectively connected dividends may be subject to an additional branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable income tax treaty, on the repatriation from the United States of its "effectively connected earnings and profits," subject to adjustments.

Under Treasury Regulations generally effective for payments made after December 31, 2000, referred to in this prospectus as the "Final Regulations," a Non-U.S. Holder will be required to satisfy certification requirements, directly or through an intermediary, in order to claim a reduced rate of withholding under an applicable income tax treaty. A Non-U.S. Holder generally certifies entitlement to benefits under a treaty by providing an IRS Form W-8BEN. In addition, under the Final Regulations, in the case of dividends paid to a foreign partnership, the certification requirement would

generally be applied to the partners of the partnership, unless the partnership agrees to become a "withholding foreign partnership," and the partnership would be required to provide various information, including a United States taxpayer identification number. The Final Regulations also provide "look-through" rules for tiered partnerships.

A Non-U.S. Holder of our common stock that is eligible for a reduced rate of United States federal income tax withholding under a tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

GAIN ON SALE OR OTHER DISPOSITION OF COMMON STOCK--In general, a Non-U.S. Holder will not be subject to United States federal income tax on any gain realized upon the sale or other taxable disposition of the holders shares of common stock unless:

- the gain is effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States, in which case the branch profits tax discussed above may also apply if the Non-U.S. Holder is a corporation,

- the Non-U.S. Holder is an individual who holds shares of common stock as a capital asset and is present in the United States for 183 days or more in the taxable year of disposition and various other conditions are met,

- the Non-U.S. Holder is subject to tax under the provisions of the Internal Revenue Code regarding the taxation of United States expatriates, or

- we are or have been a "U.S. real property holding corporation" within the meaning of Section 897(c)(2) of the Internal Revenue Code at any time within the shorter of the five-year period preceding such disposition or such holders holding period. We do not believe that we are, and do not anticipate becoming, a United States real property holding corporation.

BACKUP WITHHOLDING AND INFORMATION REPORTING--Generally, we must report annually to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the recipient. These information reporting requirements apply even if withholding was not required because the dividends were effectively connected dividends or withholding was reduced by an applicable income tax treaty. Under tax treaties or other agreements, the IRS may make its reports available to tax authorities in the recipients country of residence.

Payments made to a Non-U.S. Holder that is not an exempt recipient generally will be subject to backup withholding at a rate of 31%, rather than withholding at a 30% rate or lower treaty rate discussed above, unless a Non-U.S. Holder certifies as to its foreign status, which certification may be made on IRS Form W-8 BEN.

Proceeds from the disposition of common stock by a Non-U.S. Holder effected by or through a United States office of a broker will be subject to information reporting and to backup withholding at a rate of 31% of the gross proceeds unless the Non-U.S. Holder certifies to the payor under penalties of perjury as to, among other things, its address and status as a Non-U.S. Holder or otherwise establishes an exemption. Generally, United States information reporting and

backup withholding will not apply to a payment of disposition proceeds if the transaction is effected outside the United States by or through a non-United States office of a broker. However, if the broker is, for United States federal income tax purposes, a United States person, a controlled foreign corporation, a foreign person who derives 50% or more of its gross income for specified periods from the conduct of a United States trade or business, specified United States branches of foreign banks or insurance companies, or, a

foreign partnership with various connections to the United States, information reporting but not backup withholding will apply unless:

- the broker has documentary evidence in its files that the holder is a Non-U.S. Holder and other conditions are met; or

- the holder otherwise establishes an exemption.

Backup withholding is not an additional tax. Rather, the United States federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If backup withholding results in an overpayment of United States federal income taxes, a refund may be obtained, provided the required documents are filed with the IRS.

ESTATE TAX--Our common stock owned or treated as owned by an individual who is not a citizen or resident, as defined for United States federal estate tax purposes, of the United States at the time of death will be included in the individuals gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Underwriting

We and the underwriters for the offering named below have entered into an underwriting agreement concerning the shares being offered. Subject to conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. UBS Warburg LLC and First Union Securities, Inc. are the representatives of the underwriters.

NUMBER OF UNDERWRITER SHARES
UBS Warburg LLC
First Union Securities, Inc.
Total

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have a 30-day option to buy from us up to an additional shares at the initial public offering price less the underwriting discounts and commissions to cover these sales. If any shares are purchased under this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above. The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional shares.

NO EXERCISE	FULL EXERCISE
Per share	$
Total	$ $

We estimate that the total expenses of the offering payable by us, excluding underwriting discounts and commissions, will be approximately $.

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any of these securities dealers may resell any shares purchased from the underwriters to other brokers or dealers at a discount of up to $ per share from

the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the selling terms. The underwriters have informed us that they do not expect discretionary sales to exceed % of the shares of common stock to be offered.

Our company and each of our directors, officers and our stockholders and optionholders owning 1% or more of our common stock (assuming the exercise of such options) have agreed with the underwriters not to offer, sell, contract to sell, hedge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act of 1933 relating to, any shares of our common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, without the prior written consent of UBS Warburg LLC.

The underwriters have reserved for sale, at the initial public offering price, shares of our common stock being offered for sale to our customers and business partners. At the discretion of

our management, other parties, including our employees, may participate in the reserved shares program. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

Prior to this offering, there has been no public market for our common stock. The initial public offering price was negotiated by us and the representatives. The principal factors to be considered in determining the initial public offering price included:

- the information set forth in this prospectus and otherwise available to the representatives;
- the history and the prospects for the industry in which we compete;
- the ability of our management;
- our prospects for future earnings, the present state of our development and our current financial position;
- the general condition of the securities markets at the time of this offering; and
- recent market prices of, and demand for, publicly traded common stock of comparable companies.

In connection with the offering, the underwriters may purchase and sell shares of our common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the overallotment option. "Naked" short sales are any sales in excess of the overallotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while the offering is in progress. The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions. These activities by the underwriters may stabilize, maintain or otherwise affect the market price of our common stock. As a result, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise.

We have agreed to indemnify the several underwriters against liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments that the underwriters may be required to make in respect thereof.

Legal matters

The validity of the shares of common stock offered in this prospectus will be passed upon for us by Brobeck, Phleger & Harrison LLP, San Diego, California. Certain legal matters in connection with the offering will be passed upon for the underwriters by Alston & Bird LLP, New York, New York.

Experts

The consolidated financial statements as of December 31, 1999 and 2000, and for each of the three years in the period ended December 31, 2000, included in this prospectus and registration statement have been audited by Ernst & Young, LLP, independent auditors, as stated in their report appearing in this prospectus and registration statement, and are included in reliance upon the report of that firm given upon their authority as experts in accounting and auditing.

Where you can find more information

We have filed with the SEC a registration statement on Form S-1 (including the exhibits, schedules and amendments to the registration statement) under the Securities Act of 1933 with respect to the shares of common stock to be sold in this offering. This prospectus does not contain all the information set forth in the registration statement. For further information with respect to our company and the shares of common stock to be sold in this offering, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract, agreement or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference.

Our SEC filings, including the registration statement, are also available to you on the Commission's website (http://www.sec.gov). You may read and copy all or any portion of the registration statement or any other information we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms.

As a result of this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934, and in accordance with those requirements, we will file periodic reports, proxy statements and other information with the SEC. Upon approval of the common stock for quotation on the Nasdaq National Market, such reports, proxy and information statements and other information may also be inspected at the offices of Nasdaq Operations, 1735 K Street, N.W., Washington, D.C. 20006.

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Digirad Corporation

We have audited the accompanying consolidated balance sheets of Digirad Corporation as of December 31, 1999 and 2000, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digirad Corporation at December 31, 1999 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

San Diego, California
June 5, 2001, except for the first paragraph of Note 4 and
Note 11, as to which the date is August 23, 2001.

DIGIRAD CORPORATION

CONSOLIDATED BALANCE SHEETS

		PRO FORMA DECEMBER 31,	STOCKHOLDERS'
			EQUITY
1999	2000	JUNE 30, 2001	JUNE 30, 2001
(unaudited)	(unaudited)		
		ASSETS Current assets: Cash and cash equivalents	
$ 2,625,713	$ 6,555,281	$ 3,510,477	Accounts receivable, net
--	3,054,021	4,987,020	Inventories, net
288,788	3,875,961	7,765,410	Other current assets
221,162	590,644	989,732	Total current assets
3,135,663	14,075,907	17,252,639	Property and equipment, net
2,151,484	6,307,967	7,910,174	Intangibles, net
412,157	2,823,535	2,557,619	Other assets
--	--	836,880	Total assets
$ 5,699,304	$ 23,207,409	$ 28,557,312	
			LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) Current liabilities: Accounts payable
$			

1,290,581 $ 2,622,778 $ 3,557,442
Accrued
compensation.....
500,859 1,078,517 1,451,275 Accrued
warranty..... 22,523
1,034,000 832,759 Other accrued
liabilities..... 106,245
925,138 1,292,969 Current portion of
debt..... 414,672 2,934,580
5,613,945 ----------- ----------- -
---------- Total current
liabilities..... 2,334,880
8,595,013 12,748,390 Long-term debt,
net of current
portion.....
1,420,758 4,944,422 5,075,883 Notes
payable to stockholders.....
735,000 735,000 735,000 Commitments
and contingencies Redeemable
convertible preferred stock-- $.001
par value; 18,690,839, 27,129,568 and
27,582,646 shares authorized at
December 31, 1999, 2000 and June 30,
2001 (unaudited), respectively;
18,493,211, 25,190,857 and 27,129,568
shares issued and outstanding at
December 31, 1999, 2000 and June 30,
2001, respectively; liquidation
value--$52,593,153 and $58,479,080 at
December 31, 2000 and June 30, 2001
(unaudited), respectively. None
outstanding pro forma
(unaudited).....
32,259,100 52,254,742 58,109,136 $ --
Stockholders' equity (deficit):
Common stock--$.001 par value;
27,000,000, 36,438,729 and 38,091,807
shares authorized at December 31,
1999, 2000 and June 30, 2001
(unaudited), respectively; 3,401,034,
4,364,040 and 4,574,603 shares issued
and outstanding at December 31, 1999,
2000 and June 30, 2001 (unaudited),
respectively, 31,704,170 shares
outstanding pro forma (unaudited)...
3,401 4,364 4,575 31,704 Additional
paid-in capital..... 523,055
2,393,036 4,707,535 62,789,542
Deferred
compensation..... --
(536,820) (1,712,989) (1,712,989)
Notes receivable from
stockholders.... (4,180) (85,919)
(111,919) (111,919) Accumulated
deficit.....
(31,572,710) (45,096,429)
(50,998,299) (50,998,299) -----------
- ----------- ----------- ---------
--- Total stockholders' equity
(deficit).... (31,050,434)
(43,321,768) (48,111,097) $ 9,998,039
----------- ----------- -----------
- ========== Total liabilities and
stockholders' equity
(deficit)..... $
5,699,304 $ 23,207,409 $ 28,557,312
========== ==========
==========

See accompanying notes.

DIGIRAD CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

SIX MONTHS ENDED YEARS ENDED
DECEMBER 31, JUNE 30, --------

--- ---
1998 1999 2000 2000 2001
(unaudited) (unaudited) ------

REVENUES:
Products.....
$ 339,802 $ 283,889 $
5,815,474 $1,456,480 $
9,802,365 Imaging
services..... -- --
1,259,948 -- 4,216,575
Licensing and
other..... 1,581,167 --
-- -- -- ----------

Total
revenues.....
1,920,969 283,889 7,075,422
1,456,480 14,018,940 COST OF
REVENUES:
Products.....
388,172 264,545 9,834,351
3,601,803 6,437,769 Imaging
services..... -- --
839,296 -- 3,394,363

Total
cost of revenues.....
388,172 264,545 10,673,647
3,601,803 9,832,132

Gross
profit (loss).....
1,532,797 19,344 (3,598,225)
(2,145,323) 4,186,808
OPERATING EXPENSES: Research
and development.....
5,425,678 10,062,957 2,372,412
1,082,770 1,327,317 Sales and
marketing..... 622,881
1,455,292 3,585,433 1,291,098
4,027,934 General and
administrative..... 2,533,452
1,967,050 2,878,199 1,071,668
2,898,832 Amortization of
intangible
assets.....
-- -- 208,624 3,347 314,532
Stock-based
compensation..... -- --
296,187 -- 1,063,043

Total
operating expenses.....
8,582,011 13,485,299 9,340,855
3,448,883 9,631,658

Loss
from operations.....
(7,049,214) (13,465,955)
(12,939,080) (5,594,206)
(5,444,850) Interest
income.....
903,294 360,476 242,831
123,736 144,732 Interest
expense.....
(46,041) (86,942) (780,123)
(220,704) (545,391)

Net
loss.....
(6,191,961) (13,192,421)
(13,476,372) (5,691,174)
(5,845,509) Accretion of
deferred issuance costs on
preferred stock..... -- --
(47,347) -- (56,361)

Net
loss applicable to common
stockholders.....
$(6,191,961) $(13,192,421)
$(13,523,719) $(5,691,174)
$(5,901,870) ==========
==========
==========
==========
Basic
and diluted net loss per

share.....
$ (1.87) $ (3.90) $ (3.61) $
(1.65) $ (1.35) ==========
========== ========== ==========
Shares used to compute basic and diluted net loss per share..... 3,305,804 3,380,530 3,745,049 3,454,822 4,366,429
========== ========== ========== ==========

The composition of stock-based compensation is as follows:

Cost of revenues.....	$ 64,392	$ 196,809
Research and development.....	5,954	61,116
Sales and marketing.....	36,950	421,264
General and administrative.....	188,891	383,854
	$ 296,187	$ 1,063,043

See accompanying notes.

DIGIRAD CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000 AND THE SIX MONTHS ENDED JUNE 30, 2001(UNAUDITED)

	NOTES	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	STOCKHOLDERS' EQUITY (DEFICIT)
Balance at December 31, 1997.....		3,284,423	$3,284	$ 351,509	$ --	$(12,188,328)	$(11,833,535)
Exercise of common stock options....		80,886	81	35,058	--	--	35,139
Net loss.....		--	--	--	--	(6,191,961)	(6,191,961)
Balance at December 31, 1998.....		3,365,309	3,365	386,567	--	(18,380,289)	(17,990,357)
Exercise of common							

stock options.... 35,725 36 10,324 - - (4,180) -- 6,180 Issuance of warrants in conjunction with debt..... -- -- 126,164 -- - - -- 126,164 Net loss..... -- -- -- -- -- (13,192,421) (13,192,421) ----- ---- ------ ------ ---- ----------- - -------- --------- --- ------------ Balance at December 31, 1999..... 3,401,034 3,401 523,055 -- (4,180) (31,572,710) (31,050,434) Repayment of note receivable from stockholder..... -- -- -- -- 4,180 -- 4,180 Exercise common stock options.... 663,006 663 195,168 -- (85,919) -- 109,912 Issuance of common stock in asset acquisitions (Note 2)..... 300,000 300 410,700 -- -- -- 411,000 Commitment to issue common stock (Note 2)..... -- -- 172,000 -- -- -- 172,000 Issuance of warrants in conjunction with debt..... -- -- 259,106 -- - - -- 259,106 Issuance of options and warrants to consultants..... -- -- 32,272 -- -- -- 32,272 Deferred compensation..... -- -- 800,735 (800,735) -- -- -- Amortization of deferred compensation..... -- -- -- 263,915 - - -- 263,915 Net loss..... -- -- -- -- -- (13,476,372) (13,476,372) Accretion of deferred issuance costs on preferred stock..... -- -- -- -- -- (47,347) (47,347) --------- ------ - --------- -------- --- --------- ---- -------- --------- --- Balance at December 31, 2000..... 4,364,040 4,364 2,393,036 (536,820) (85,919) (45,096,429)

(43,321,768) Exercise of common stock options (unaudited)..... 214,128 214 76,637 -- (26,000) -- 50,851 Repurchase of unvested restricted stock (unaudited)..... (3,565) (3) (1,350) -- -- -- (1,353) Issuance of options and warrants to consultants (unaudited)..... -- -- 243,029 -- -- -- 243,029 Deferred compensation (unaudited)..... -- -- 1,996,183 (1,996,183) -- -- Amortization of deferred compensation (unaudited)..... -- -- -- 820,014 -- -- 820,014 Net loss (unaudited)..... -- -- -- -- -- (5,845,509) (5,845,509) Accretion of deferred issuance costs on preferred stock (unaudited)..... -- -- -- -- -- (56,361) (56,361) --- --- ---- --- Balance at June 30, 2001(unaudited).... 4,574,603 $4,575 $4,707,535 $(1,712,989) $(111,919) $(50,998,299) $(48,111,097)

See accompanying notes.

DIGIRAD CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30,	YEARS ENDED DECEMBER 31,			
	1998	1999	2000	2001 (unaudited)
	(unaudited)			
OPERATING ACTIVITIES				
Net loss	$(6,191,961)	$(13,192,421)	$(13,476,372)	$(5,691,174)
Adjustments to reconcile net loss to net cash used by operating activities:				
Depreciation and				

amortization..... 573,030 733,947 939,959 367,794 866,516 Amortization of intangibles..... -- -- 208,624 3,347 314,530 Amortization of deferred compensation.... -- -- 263,915 -- 820,014 Amortization of debt discount related to warrants issued in conjunction with debt..... -- 6,942 174,949 20,957 55,482 Stock options and warrants issued to consultants..... -- -- 32,272 2,640 243,029 Changes in operating assets and liabilities: Accounts receivable..... (83,977) 113,296 (2,952,106) (1,298,786) (1,932,999) Other assets..... (106,223) (306,711) (361,853) (202,442) (1,235,968) Inventories..... -- -- (3,587,173) (3,448,369) (3,889,449) Accounts payable..... 621,590 300,109 1,373,532 166,684 934,664 Accrued compensation..... (7,833) 169,122 577,657 130,593 372,758 Accrued warranty and other accrued liabilities..... (267,700) 89,682 1,789,035 860,592 166,590 ---------- ---------- ---------- ---- ------- ---------- Net cash used by operating activities..... (5,463,074) (12,086,034) (15,017,561) (9,088,164) (9,130,342) INVESTING ACTIVITIES Asset acquisitions..... -- -- (2,172,000) -- -- Purchases of property and equipment..... (1,559,695) (916,649) (5,040,938) (894,265) (2,468,723) Patents and other assets..... (103,859) (12,664) (30,050) 2,530 (48,614) ---------- -- ---------- ---------- ---------- - ---------- Net cash used by investing activities..... (1,663,554) (929,313) (7,242,988) (891,735) (2,517,337) FINANCING ACTIVITIES Net issuances of common stock..... 35,139 6,180 109,912 15,888 49,498 Net borrowings under line of credit..... -- -- 788,348 -- 2,168,675 Proceeds from issuance of notes payable.... -- 2,000,000 4,000,000 1,000,000 -- Repayment of obligation under notes payable..... -- (45,349) (812,691) (353,805) (741,646) Net proceeds from sale of preferred stock..... 1,500,000 -- 17,948,295 10,637,321 5,798,033 Proceeds from lease financing..... -- -- 4,239,075 -- 1,596,708 Repayment of obligations under capital leases..... (21,341) -- (87,002) -- (268,393) Repayment of note receivable from stockholder..... -- -- 4,180 -- -- ---------- ---------- ---------- ---------- ---------- Net cash provided by financing activities.... 1,513,798 1,960,831 26,190,117 11,299,404 8,602,875 ---------- ---------- ---------- ------- ----- ---------- ---------- Net increase (decrease) in cash and cash equivalents..... (5,612,830) (11,054,516) 3,929,568 1,319,505 (3,044,804) Cash and cash equivalents at beginning of period..... 19,293,059 13,680,229 2,625,713 2,625,713 6,555,281 ---------- ---------- ------- ----- ---------- ---------- Cash and cash equivalents at end of period... $13,680,229 $ 2,625,713 $ 6,555,281 $ 3,945,218 $ 3,510,477 ========== ========== ========== ========== ========== SUPPLEMENTAL INFORMATION: Cash paid during the period for interest..... $

59,283 $ 89,526 $ 480,576 $ 208,222 $ 553,102 ========== ========== ========== ========== ========== ========== Issuance of warrants in conjunction with debt..... $ -- $ 126,164 $ 259,106 $ 49,621 $ -- ========== ========== ========== ========== ========== Conversion of bridge notes into Series E preferred stock..... $ -- $ - - $ 2,000,000 $ -- $ -- ========== ========== ========== ========== ========== Stock issued for asset acquisitions..... $ -- $ -- $ 411,000 $ -- $ -- ========== ========== ========== ========== ==========

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 2001 IS UNAUDITED)

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

Digirad Corporation (the "Company"), a Delaware corporation, designs, develops, manufactures and markets solid-state digital gamma cameras for use in nuclear medicine and provides mobile nuclear medicine imaging services. Nuclear medicine imaging provides unique information about organ function and physiology and can be used for the early detection of many forms of cancer and cardiovascular disease. The Company's portable gamma cameras, which incorporate its proprietary semiconductor detector technology, provide improved images, solid-state reliability, and can be formatted into unique lightweight sizes and shapes. In addition to conventional nuclear medicine applications, the Company's solid-state cameras offer the medical profession imagers that can be used in a variety of new clinical diagnostic imaging applications, which include cost saving applications in the surgical centers, emergency rooms, intensive care units, critical care units and other shared facilities.

BASIS OF PRESENTATION

In 2000, the Company formed two Delaware corporations, Digirad Imaging Solutions, Inc. and its subsidiary Digirad Imaging Systems, Inc., together "DIS", to provide turn-key nuclear cardiology imaging to physicians in their offices on a national basis. DIS is a wholly owned subsidiary of Digirad and was capitalized by contributing certain acquired assets (see Note 2). The accompanying consolidated financial statements include the operations of DIS. Intercompany accounts have been eliminated in consolidation.

INTERIM FINANCIAL DATA

The accompanying consolidated financial statements for the six months ended June 30, 2000 and 2001 are unaudited. The unaudited financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of management, include all adjustments, consisting of only normal recurring adjustments, necessary to state fairly the financial information set forth therein, in accordance with generally accepted accounting principles.

The results of operations for the interim period ended June 30, 2001 are not necessarily indicative of the results which may be reported for any other interim period or for the year ending December 31, 2001.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and disclosures made in the accompanying notes to the consolidated financial statements. Actual results could differ from those estimates.

PRO FORMA STOCKHOLDERS' EQUITY

If an initial public offering contemplated by this Prospectus is consummated under the terms presently anticipated, all shares of redeemable convertible preferred stock outstanding at June 30, 2001 will automatically convert into 27,129,568 common shares. Unaudited pro forma stockholders' equity at June 30,

2001, as adjusted for the conversion of the redeemable convertible preferred stock is disclosed in the accompanying balance sheet.

CASH AND CASH EQUIVALENTS

The Company considers all investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents primarily represent funds invested in money market funds whose cost equals market value.

OTHER ASSETS

Other assets primarily consist of legal, accounting and other costs incurred in connection with a proposed public offering of common stock in the Company. These deferred offering costs total $626,572 and will be charged against the proceeds received in connection with the offering. In the event the offering is unsuccessful, these costs will be charged against the operations of the Company.

CONCENTRATION OF CREDIT RISK

The Company sells its products to customers in the United States and Japan. A relatively small number of customers account for a significant percentage of the Company's revenues. For the year ended December 31, 2000, three product customers accounted for 15.9%, 11.6% and 10.1% of our consolidated revenues. However, for the six months ended June 30, 2001, no product customers accounted for 10% or more of consolidated revenues. No imaging services customers accounted for 10% or more of our consolidated revenues for the year ended December 31, 2000 or the six months ended June 30, 2001. Revenues in 1998 and 1999 were for sales of various pre-commercialization components of the Company's products, licensing and contract research and were not representative of the Company's current products.

A significant percentage of the Company's net imaging services revenue in 2000 and 2001 is derived from governmental agencies, such as Medicare. Management believes that there are minimal credit risks associated with transactions and balances with these governmental agencies. However, there is a potential risk that reimbursement rates can be reduced in the future.

The Company maintains reserves for potential credit losses and contractual allowances, which historically have been within management's estimates.

INVENTORIES

Inventories are stated at the lower of cost or market, cost being determined on a first-in, first-out basis.

PROPERTY AND EQUIPMENT

Depreciation and amortization of property and equipment, including assets recorded under capital leases, is provided using the straight-line method over the shorter of the estimated useful lives of the related assets, which is generally 3 to 10 years, or the lease term if applicable.

INTANGIBLES

Intangibles include acquired customer contracts, a covenant not-to-compete, patents and trademarks and are recorded at cost. Intangibles, except for patents, are amortized over their estimated useful lives, which range from three to five years. Patents are amortized over the lesser of their estimated useful or legal lives (up to 20 years).

IMPAIRMENT OF LONG-LIVED ASSETS

The Company follows Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the projected discounted future net cash flows arising from the assets. SFAS 121 also addresses the accounting for long-lived assets that are expected to be disposed of. To date, no such impairments have been identified.

REVENUE RECOGNITION

The Company recognizes revenue when all four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectibility is reasonably assured. In addition, the Company complies with SEC Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB 101"), which became effective in the fourth quarter of 2000. SAB 101 sets forth guidelines on the timing of revenue recognition based upon factors such as passage of title, installation, payment and customer acceptance.

The Company has two primary sources of revenue which are product sales and imaging services. Product revenues consist of revenues from the sales of gamma cameras and revenues are recognized generally upon shipment and passage of title. Revenue for products that have not previously satisfied customer acceptance requirements or from sales where customer payments are based solely on customer acceptance are recognized upon customer acceptance. The Company also provides installation and training for camera sales. The installation is outsourced to a national service company and training is provided by Company representatives. Neither service is essential to the functionality of the product. Both services are performed shortly after delivery and represent an insignificant cost to the Company. The Company accrues these costs at the time of shipment.

Imaging services revenue is derived from the Company's mobile nuclear imaging services. Revenue related to mobile imaging services is recognized at the time services are performed and collection is reasonably assured. Imaging services revenue is billed on a per procedure or per day basis. The Company is reimbursed for mobile imaging services provided to patients under certain programs administered by governmental agencies and private insurance companies. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that they are in compliance with all applicable laws and regulations and they are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Non-compliance can result in significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

In 1998, in addition to certain grant revenues, the Company also received $1,250,000 from a collaboration agreement that was terminated in 1999.

STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board ("APB") Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEEs, and related Interpretations in accounting for its employee stock

options. Under APB 25, if the exercise price of the Company's employee stock options is not less than the fair market value of the underlying stock on the date of grant, no compensation expense is recognized. In conjunction with the Company's initial public offering contemplated by this prospectus and other events that occurred in 2000, the Company reviewed its exercise prices and arrived at a revised fair value for certain stock options granted subsequent to June 30, 2000. With respect to the options granted between June 30, 2000 and December 31, 2000 and for the six months ended June 30, 2001, the Company has recorded deferred stock compensation of $800,735 and $1,996,183, respectively, for the difference between the original exercise price per share determined by the Board of Directors and the revised estimate of fair value per share at the respective grant date. The approximate weighted average exercise price and approximate weighted average revised fair value per share for the 798,250 options granted between June 30, 2000 and December 31, 2000 was $0.50 and $1.50,

respectively. The approximate weighted average exercise price and approximate weighted average revised fair value per share for the 1,169,200 options granted during the six months ended June 30, 2001 was $1.13 and $2.84, respectively. Deferred stock compensation is recognized and amortized on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation ("FIN") No. 28, ACCOUNTING FOR STOCK APPRECIATION RIGHTS AND OTHER VARIABLE STOCK OPTION OR AWARD PLANs, over the vesting period of the related options, generally four years.

Deferred compensation for stock options and warrants granted to non-employees is recorded at fair value as determined in accordance with SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATIOn, and Emerging Issues Task Force ("EITF") No. 96-18, ACCOUNTING FOR EQUITY INSTRUMENTS THAT ARE ISSUED TO OTHER THAN EMPLOYEES FOR ACQUIRING OR IN CONJUNCTION WITH SELLING GOODS OR SERVICES. The fair value of the unvested options and warrants is periodically remeasured and the related amortization is adjusted as necessary. Compensation expense related to stock options and warrants to purchase common stock issued to non-employees was $32,272 for the year ended December 31, 2000 and $243,029 for the six months ended June 30, 2001.

WARRANTY COSTS

The Company provides a warranty on certain of its products, generally for periods of up to 12 months and accrues the estimated cost at the time revenue is recorded.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred.

ADVERTISING COSTS

Advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2000 and 2001, were $63,183, $205,500, $133,987, $117,787 and $174,883, respectively.

COMPREHENSIVE INCOME

SFAS No. 130, REPORTING COMPREHENSIVE INCOME, requires that all components of comprehensive income, including net income, be reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources, including unrealized gains and losses on investments and foreign currency translation adjustments. The Company's comprehensive loss is the same as the reported net loss for all periods.

NET LOSS PER SHARE

The Company calculated net loss per share in accordance with SFAS 128, EARNINGS PER SHARE, and SAB No. 98. Basic earnings per share ("EPS") is calculated by dividing the net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, common stock subject to repurchase by the Company, convertible preferred stock, options, and warrants are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive. Under the provisions of SAB No. 98, common shares issued for nominal consideration (as defined), if any, would be included in the per share calculations as if they were outstanding for all periods presented. No common shares have been issued for nominal consideration.

Potentially dilutive securities totaling 21,973,776, 21,752,688, 30,412,668 and 33,466,687 for the years ended December 31, 1998, 1999 and 2000 and the six months ended June 30, 2001, respectively, were excluded from historical basic and diluted earnings per share because of their anti-dilutive effect.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 2001 IS UNAUDITED)

The unaudited pro forma basic and diluted net loss per share calculations assume the conversion of all outstanding shares of preferred stock into common shares using the as-if converted method as of January 1, 2000 or the date of issuance, if later.

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1998	1999	2000	2000	2001
Numerator: Net loss	$(6,191,961)	$(13,192,421)	$(13,476,372)	$(5,691,174)	$(5,845,509)
Accretion of deferred issuance costs on preferred stock	--	--	(47,347)	--	(56,361)
Net loss applicable to common stockholders	$(6,191,961)	$(13,192,421)	$(13,523,719)	$(5,691,174)	$(5,901,870)
Denominator: Weighted average common shares	3,305,804	3,384,212	3,809,507	3,483,857	4,536,135
Weighted average unvested common shares subject to repurchase	--	(3,682)	(64,458)	(29,035)	(169,706)
Denominator for basic and diluted earnings per share	3,305,804	3,380,530	3,745,049	3,454,822	4,366,429
Basic and diluted net loss per share	$ (1.87)	$ (3.90)	$ (3.61)	$ (1.65)	$ (1.35)
Pro forma basic and diluted net loss per share			$ (0.53)		$ (0.19)
Shares used above			3,745,049		4,366,429
Pro forma adjustment to reflect assumed weighted average effect of conversion of preferred stock			21,729,208		26,069,875
Pro forma shares used to compute basic and diluted net loss per share			25,474,257		30,436,304

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1999, the FASB issued SFAS No. 137, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES--DEFERRAL OF EFFECTIVE DATE OF FASB STATEMENT NO. 133. SFAS No. 137 defers for one year the effective date of SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which was originally issued in June 1998. SFAS No. 133 now will apply to all fiscal quarters of all fiscal years beginning after June 15, 2000.

SFAS No. 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. As of December 31, 2000, the Company did not hold any derivative instruments, or conduct any hedging activities. Therefore there is no anticipated impact to the consolidated financial statements for the adoption of SFAS No. 133.

In June 2001, the FASB issued SFAS No. 141, BUSINESS COMBINATIONS, and SFAS No. 142, GOODWILL AND INTANGIBLE ASSETS. SFAS No. 141 is effective for all business combinations completed after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS No. 142. Major provisions of these Statements and their effective dates for the Company are as follows: (i) all business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001; (ii) Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability; (iii) Goodwill and intangible assets with indefinite lives acquired after June 30, 2001, will not be amortized. Effective January 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization; (iv) Effective January 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator; and (v) all acquired goodwill must be assigned to reporting units for purpose of impairment testing and segment reporting. The Company is currently evaluating the impact that SFAS Nos. 141 and 142 will have on its financial reporting requirements.

2. ASSET ACQUISITIONS

On August 31, 2000, the Company entered into an Asset Purchase Agreement with Florida Cardiology and Nuclear Medicine Group ("FC"), a provider of fixed site and mobile nuclear imaging services that operates in Florida. The Company paid $1,648,000 (including 300,000 shares of common stock valued at $411,000) to acquire the accounts receivables, customer contracts of the mobile nuclear imaging services of FC and a covenant not-to-compete from the seller. The Company utilizes its technology, products, processes and procedures to provide services to the customers acquired. The Company allocated the purchase price to the assets acquired as follows: $101,000 to accounts receivable and

$1,547,000 to customer contracts. The cost of the customer contracts is being amortized over five years.

As additional consideration for the purchase of the assets, the Company shall pay to FC a payment based on earnings before interest, income taxes, depreciation and amortization ("EBITDA") during the six months ending August 31, 2001. The payout is payable 50% in cash and 50% in common stock to be issued at the fair value at the date of issuance. In addition, if the Company meets certain revenue collection thresholds during the nine-month period ending one year from the closing of the purchase, the Company will issue 100,000 shares of common stock to FC.

As part of the agreement with FC, the Company entered into a service agreement with FC, whereby FC provided medical billing and collection services. In 2001, the Company replaced FC with another third-party billing and collections service

provider.

In November 2000, the Company completed an Asset Purchase Agreement with Nuclear Imaging Systems, Inc. and Cardiovascular Concepts, P.C. (together, "NIS"), a provider of fixed site and mobile nuclear imaging services, which operated in several Mid-Atlantic states. The Company paid $935,000 primarily to acquire NIS's customer contracts. The Company utilizes its technology, products, processes and procedures to provide imaging services to the customers acquired. The Company allocated the purchase price to the assets acquired as follows: $56,000 to fixed assets, $7,000 to deposits and $872,000 to customer contracts. The cost of the customer contracts is being amortized over five years.

As part of the Asset Purchase Agreement, the Company entered into a medical billing and collection service agreement with Medical Management Concepts, Inc. ("MMC"), a subsidiary of NIS. In 2001 the agreement with MMC was terminated and the Company replaced MMC with another third-party billing and collections service provider.

In addition to the Asset Purchase Agreement, the Company entered into a consulting agreement with the principal shareholder of NIS, whereby the consultant agreed to provide consulting services (as defined) for a period of three years ending on September 29, 2003. As compensation, the consultant could receive up to 150,000 shares of the Company's common stock, based on achieving certain revenue targets; however, as long as the consultant does not breach the non-competition conditions, he will receive a minimum of 100,000 shares of common stock. The fair value of the minimum 100,000 shares of common stock is $172,000 and has been recorded as a covenant not-to-compete on the accompanying balance sheet and amortized over three years.

3. FINANCIAL STATEMENT DETAILS

The composition of certain balance sheet accounts is as follows:

ACCOUNTS RECEIVABLE

DECEMBER 31,		JUNE 30,
1999	2000	2001
	Accounts receivable	
$ --	$3,093,142	$5,221,011
Less allowance for doubtful accounts		
(39,121)	(233,991)	
- $ --	$3,054,021	$4,987,020

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 2001 IS UNAUDITED)

INVENTORIES

DECEMBER 31,		JUNE 30,	
1999	2000	2001	
			Raw materials
$266,574	$1,620,999	$2,074,876	Work-in-progress
22,214	2,110,857	4,909,053	Finished goods
--	144,105	781,481	
$288,788	$3,875,961	$7,765,410	

PROPERTY AND EQUIPMENT

DECEMBER 31,		JUNE 30,	
1999	2000	2001	
			Machinery and equipment
$ 2,155,228	$ 6,074,846	$ 8,176,057	Furniture and fixtures
212,932	239,505	227,495	Computers and software
1,121,685	1,313,903	1,531,845	Leasehold improvements
773,167	891,757	919,711	Construction in

process.....
140,451 365,279 425,546 ---------- ---------- -
---------- 4,403,463 8,885,290 11,280,654 Less
accumulated depreciation and
amortization..... (2,251,979)
(2,577,323) (3,370,480) ---------- ---------- -
---------- $ 2,151,484 $ 6,307,967 $ 7,910,174
========== ========== ==========

During 2000 and 2001, the Company entered into a series of financing transactions structured as capital leases. The equipment, consisting of vans equipped with the Company's portable gamma cameras, is used by DIS to provide mobile nuclear imaging services. The terms of these leases generally range from 36 to 63 months. The cost of the equipment was $2,973,636 ($106,899 of accumulated depreciation) at December 31, 2000 and $4,112,650 ($396,939 of accumulated depreciation) at June 30, 2001.

INTANGIBLES

DECEMBER 31, ---------- JUNE 30,
1999 2000 2001 ----------

---------- Acquired customer
contracts..... $ --
$2,419,000 $2,419,000 Patents and
trademarks.....
421,458 370,335 418,949 Covenant not-to-
compete..... --
172,000 172,000 -------- ---------- ----------
421,458 2,961,335 3,009,949 Less accumulated
amortization.....
(9,301) (137,800) (452,330) -------- ----------
---------- $412,157 $2,823,535 $2,557,619
======== ========== ==========

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 2001 IS UNAUDITED)

OTHER ACCRUED LIABILITIES

DECEMBER 31, ---------- JUNE 30, 1999
2000 2001 ----------

----- Accrued
interest.....
$ 29,817 $154,415 $ 91,217 Customer
deposits.....
-- 125,200 11,200 Sales tax
payable.....
9,675 118,255 183,435 Accrued
royalties.....
-- 96,000 125,500 Accrued offering
costs..... -- --
337,814 Other accrued
liabilities.....
66,753 431,268 543,803 -------- -------- ----------
$106,245 $925,138 $1,292,969 ======== ========
==========

4. DEBT

The composition of the Company's debt balance is as follows:

DECEMBER 31, ---------- JUNE 30, 1999
2000 2001 ----------

---- Lines of
credit..... $
-- $ 788,348 $ 2,957,023 Loan and security
agreement..... 1,954,650
3,141,960 2,400,314 Capital lease obligations (Note
5)..... -- 4,152,074 5,480,389
Debt
discount.....
(119,220) (203,380) (147,898) ---------- ---------- -

---------- 1,835,430 7,879,002 10,689,828 Current portion of debt.....
(414,672) (2,934,580) (5,613,945) ---------- ---------- -- ---------- Long-term debt, less current portion..... $1,420,758 $ 4,944,422 $ 5,075,883 ========== ========== ==========

NOTES PAYABLE TO FINANCIAL INSTITUTIONS

In April 2000, the Company entered into a line of credit with a bank for a $2,500,000 revolving line of credit. Borrowings under the line of credit accrue interest at the bank's floating prime rate plus 1% (9.75% at December 31, 2000) and are limited to the available borrowing base (as defined). In July 2001, the line of credit was increased to $4,300,000 and the amended line of credit accrues interest at the bank's floating prime rate plus 2%. The Company is required to make monthly interest payments. The revolving line of credit expires July 31, 2002 with any unpaid balance due upon expiration.

In November 1999, the Company entered into a loan and security agreement to borrow up to $3,000,000. In August 2000, the Company modified its November 1999 loan agreement to borrow an additional $1,000,000. Borrowings under this agreement accrue interest at rates between 13.53% and 14.40%. The Company is required to make monthly payments of $156,273 on principal and interest through November 2002.

During 1999 and 2000, in conjunction with the loan and security agreement (as amended), the Company issued the lender warrants to purchase 294,713 shares of Series E preferred stock at a price of $3.036 per share and valued the warrants at $280,529. The warrants are exercisable immediately. The value of the warrant is recorded as debt discount and is amortized to interest expense on a straight-line basis over the term of the debt. The fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 75%; risk-free interest rate of 6%; and a term of three years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS

ENDED JUNE 30, 2000 AND 2001 IS UNAUDITED)

In January 2001, the Company entered into a loan and security agreement related to DIS for a revolving line of credit. The Company can draw up to $2,500,000 and an additional $2,500,000 upon approval by the lender's credit committee. The borrowings under the line of credit are limited to 85% of Qualified Account (as defined) and accrue interest at the higher of prime plus 1.25% or 10.25%. The revolving credit line expires in January 2004.

NOTES PAYABLE TO STOCKHOLDERS

The Company has notes payable to stockholders totaling $735,000 that bear interest at 6.35% per year. The notes mature on March 31 of the year immediately following the first year in which the Company generates cash from operations. Since the Company does not expect to generate cash from operations in the year ended December 31, 2001, these notes have been classified as long-term.

Principal maturities on long-term debt, excluding capital lease obligations (see Note 5), and notes payable to stockholders are as follows at December 31, 2000:

2001.....	$1,536,023
2002.....	1,605,937
	$3,141,960

The Company's borrowings are generally subject to financial and other restrictive covenants. Substantially all of the Company's assets have been pledged as collateral.

5. LEASE COMMITMENTS

The Company leases its facilities under non-cancelable operating leases which expire through 2002. Rent expense was $303,475, $390,919, $418,470, $199,549, and $346,188 for the years ended December 31, 1998, 1999 and 2000 and the six months ended June 30, 2000 and 2001, respectively.

Annual future minimum lease payments as of December 31, 2000 are as follows:

	OPERATING LEASES	CAPITAL LEASES
2001	$351,872	$ 1,240,640
2002	158,122	1,305,916
2003	69,375	1,199,575
2004	28,125	880,552
2005	24,375	880,552
Thereafter	4,063	--
Total minimum lease payments	$635,932	5,507,235
Less amount representing interest		(1,355,161)
Present value of future minimum capital lease obligations		4,152,074
Less amounts due in one year		(721,163)
Long-term portion of capital lease obligations		$ 3,430,911

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 2001 IS UNAUDITED)

6. REDEEMABLE CONVERTIBLE PREFERRED STOCK

DECEMBER 31, 2000					JUNE 30, 2001				
	REDEMPTION					REDEMPTION			
SERIES	PRICE PER SHARE	NUMBER OF SHARES ISSUED	LIQUIDATION VALUE	REDEMPTION AND LIQUIDATION DATE	SERIES	PRICE PER SHARE	NUMBER OF SHARES ISSUED	LIQUIDATION VALUE	REDEMPTION AND LIQUIDATION DATE
A	$ 1.00	2,250,000	$ 2,250,000	March 1995	A	$ 1.00	2,250,000	$ 2,250,000	March 1995
B	$ 1.10	2,281,000	2,509,100	December 1995	B	$ 1.10	2,281,000	2,509,100	December 1995
C	$ 1.25	4,800,000	6,000,000	August 1997	C	$ 1.25	4,800,000	6,000,000	August 1997
D	$2.3073	8,668,140	20,000,000	August 1997	D	$2.3073	8,668,140	20,000,000	June 1998
E	$ 3.036	494,071	1,500,000	March, April, June, November and December 2000	E	$ 3.036	6,697,646	20,334,053	January, March and April 2001
					E	$ 3.036	--	--	1,938,711
		25,190,857	52,593,153	27,129,568			5,885,927		58,479,080
Less: Unamortized deferred issuance costs				(338,411)					(369,944)
				$52,254,742					$58,109,136

Deferred issuance costs through December 31, 2000 and June 30, 2001 for all series of preferred stock totaled $385,758 and $473,652, respectively, and are

being accreted up to the redemption value through July 31, 2004 (the earliest redemption date).

The preferred stock is redeemable on or after July 31, 2004, upon the request of at least 66 2/3% of the holders of preferred stock. The Company shall redeem all outstanding shares of preferred stock by paying in cash its liquidation value plus declared but unpaid dividends. No dividends have been declared through June 30, 2001.

The preferred stock will automatically be converted into shares of common stock upon the closing of a sale of the Company's common stock in a public offering registered under the Securities Act of 1933 which results in aggregate gross proceeds equal to or exceeding $15,000,000 at a price equal to or exceeding $7.50 per share of common stock, or with the approval of holders of at least 75% of the outstanding shares of preferred stock and the approval of 60% of the holders of Series D. Each share of the Series A, B, C, D, and E preferred stock is convertible, at the option of the holder, into one share of the Company's common stock, which has been reserved for issuance upon conversion of the preferred stock, subject to certain antidilution adjustments.

Holders of the Series A, B, C, D, and E preferred stock are entitled to receive dividends, if and when declared by the Board of Directors, at a rate of $0.10, $0.11, $0.125, $0.231, and $0.304 per share per annum, respectively. The holder of each share of preferred stock is entitled to the number of votes equal to the number of shares of common stock into which the preferred stock could be converted. The Company is subject to certain covenants under the agreements that require the vote or written consent by a majority of the then outstanding preferred shares regarding certain changes in the rights and interests of the preferred shares. The shareholders also have certain antidilutive rights.

In the event of any liquidation, dissolution or winding up of the Company, the holders of preferred stock are entitled to receive their liquidation value prior and in preference to any distribution of the assets or surplus funds of the Company to the holders of common stock. If, upon the occurrence of such event, the assets and funds distributed among the holders of preferred stock are insufficient to permit full payment, the entire assets and funds of the Company would be distributed among the preferred shareholders in proportion to the product of the liquidation preference of each such share and the number of such shares owned by each such holder.

7. STOCKHOLDERS' EQUITY (DEFICIT)

WARRANTS

During 2000, in conjunction with two consulting agreements, the Company issued two warrants to purchase 10,000 and 500 shares of the Company's common stock at $1.50 and $3.04 per share, respectively. The warrants are exercisable immediately and expire in November 2005. The fair value of the warrants was $5,670.

During the six months ended June 30, 2001, in conjunction with various sales and marketing arrangements, the Company issued warrants to purchase 90,000 shares of the Company's common stock at prices ranging from $1.50 to $3.04 per share. The warrants are exercisable immediately and expire five years from the date of issuance. The fair value of the warrants was $138,300.

In September 2000, in conjunction with convertible bridge note financing the Company issued warrants to purchase up to 65,875 shares of Series E preferred stock at $3.036 per share. The warrants are exercisable immediately and expire the earlier of (i) September 2005 or (ii) the closing of an initial public offering. The fair value of the warrants was $104,741 and was recognized as interest expense in December 2000 due to the conversion of the bridge notes.

During 1999 and 2000, in connection with the Company's loan security agreements, the Company issued 294,713 warrants to purchase Series E preferred stock at a price of $3.036 per share. The fair value of the warrants issued was $126,164 in 1999 and $154,365 in 2000.

All of the warrants above were valued using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 75%; risk-free interest rate of 6%; and a term of three years.

STOCK OPTIONS

In December 1998, the Company's 1997 Stock Option/Stock Issuance Plan was replaced with the 1998 Stock Option/Stock Issuance Plan ("1998 Plan") under which 1,000,000 shares of common stock were reserved for issuance upon exercise of options granted by the Company. Under all stock option plans, the Company is authorized to issue an aggregate of 6,654,860 shares of common stock. Terms of the stock option agreements, including vesting requirements (which is generally four years), are determined by the Board of Directors. Upon grant, the options are exercisable immediately; however any exercised but unvested shares are subject to repurchase by the Company at the original exercise price. Options granted have a term of up to ten years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 2001 IS UNAUDITED)

The following table summarizes option activity under the stock option plans:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at December 31, 1997	2,506,360	$ 0.31
Granted	1,248,170	$ 0.33
Cancelled	(193,079)	$ 0.42
Exercised	(80,886)	$ 0.43
Outstanding at December 31, 1998	3,480,565	$ 0.31
Granted	773,500	$ 0.35
Cancelled	(1,164,991)	$ 0.26
Exercised	(35,725)	$ 0.29
Outstanding at December 31, 1999	3,053,349	$ 0.34
Granted	2,574,964	$ 0.48
Cancelled	(333,754)	$ 0.36
Exercised	(663,006)	$ 0.30
Outstanding at December 31, 2000	4,631,553	$ 0.42
Granted	1,230,700	$ 1.14
Cancelled	(58,209)	$ 0.68
Exercised	(214,127)	$ 0.37
Outstanding at June 30, 2001	5,589,917	$ 0.58

As of December 31, 2000 and June 30, 2001, 1,202,190 and 40,264 shares, respectively, were available for future grant.

Following is a further breakdown of the options outstanding as of December 31, 2000:

OUTSTANDING	WEIGHTED AVERAGE CONTRACTUAL LIFE IN	WEIGHTED AVERAGE EXERCISE PRICE OF OPTIONS	VESTED	WEIGHTED AVERAGE EXERCISE PRICE OF VESTED OPTIONS

YEARS
OUTSTANDING
OPTIONS
OPTIONS ----

---------- $
0.21 606,995
5.0 $ 0.21
579,584 $
0.21 $ 0.25
360,527 7.1
$ 0.25
265,919 $
0.25 $ 0.35
2,155,174
8.6 $ 0.35
646,971 $
0.35 $ 0.50
1,158,057
9.6 $ 0.50
98,984 $
0.50 $ 0.75
300,000 5.2
$ 0.75
285,000 $
0.75 $ 3.04
- $3.50
50,800 9.4 $
3.41 50,800
$ 3.41 -----
------- ----
-------- ---
---------- -
-------- ---

4,631,553
8.1 $ 0.42
1,927,258 $
0.44
============
============
=============
=========
=============

The weighted average fair values of options granted in 1998, 1999, and 2000 were $0.08, $0.07, and $0.59, respectively.

Adjusted pro forma information regarding net loss is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that

Statement. The fair value for these options was estimated at the date of grant using the Minimum Value pricing model with the following weighted- average assumptions for 1998, 1999 and 2000: a risk-free interest rates of 5%, 5% and 6%, respectively; a dividend yield of 0%; and a life of the option of five, five and six years, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized on an accelerated basis in accordance with FIN 28 over the vesting period. The Company's pro forma net loss information is as follows:

YEARS ENDED DECEMBER 31, --------------------
--------------------- 1998 1999 2000 --------

----- Pro forma net
loss..

$(6,244,166) $(13,307,042) $(13,632,212) Pro forma net loss per share-basic and diluted..... $ (1.89) $ (3.94) $ (3.64)

The pro forma results above are not likely to be representative of the effects of applying SFAS 123 on reported net income or loss for future years.

NOTES RECEIVABLE FROM STOCKHOLDERS

At December 31, 1999 and 2000 and June 30, 2001, the Company had notes receivable from employee stockholders of $4,180, $85,919 and $111,919, respectively. The notes relate to the exercise of common stock options, are full recourse and bear interest at 6% per year. The notes are due on the earlier of (i) the date on which the employee ceases to be employed by the Company, (ii) 90 days after an initial public offering of the Company's common stock; or (iii) May 15, 2010.

COMMON SHARES RESERVED FOR ISSUANCE

The following table summarizes common shares reserved for future issuance:

DECEMBER 31, JUNE 30, 2000 2001 ---------- ---------- Redeemable convertible preferred stock..... 25,190,857 27,129,568 Convertible preferred stock warrants..... 360,588 360,588 Common stock warrants..... 10,500 100,500 Common stock options..... 5,833,743 5,630,181 Commitment to issue common stock (Note 2)..... 150,000 150,000 ---------- ---------- Total common shares reserved for issuance..... 31,545,688 33,370,837 ========== ==========

8. INCOME TAXES

As of December 31, 2000, the Company had federal and California income tax net operating loss carryforwards of approximately $39,896,000 and $27,920,000, respectively. The difference between the federal and California tax loss carryforwards is primarily attributable to the 50% limitation in the utilization of California net operating loss carryforwards. The federal tax loss carryforwards will begin expiring in 2006 unless previously utilized. The California tax loss carryforwards will begin to expire in 2002 unless previously utilized. The Company also has federal and California research and development and other credit carryforwards of approximately $1,570,000 and $1,250,000, respectively. The federal research and development and other credit carryforwards begin to expire in 2005 unless previously utilized.

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS

ENDED JUNE 30, 2000 AND 2001 IS UNAUDITED)

The Company's net operating loss and credit carryforwards are subject to an annual limitation on their use as a result of changes in ownership during 1995 and 1997, pursuant to Internal Revenue Code Sections 382 and 383. However, these annual limitations are not expected to have a material affect on the Company's ability to utilize its carryforwards.

Significant components of the Company's deferred tax assets are shown below. A valuation allowance, of which $5,402,000 relates to 2000, has been recognized to offset the deferred tax assets, as realization of such assets is uncertain.

DECEMBER 31, ---------- 1999 2000 ---------- ---------- Deferred tax assets: Capitalized research expense..... $ 1,517,000 $ 1,011,000 Net operating loss carryforwards..... 10,535,000 15,569,000 Research and development and other

credits..... 1,332,000 2,193,000 Other, net..... 536,000 963,000 ----------- ----------- Total deferred tax assets..... 13,920,000 19,736,000 Deferred tax liabilities-- expensed patents..... (53,000) (467,000) ----------- ----------- Total net deferred tax assets..... 13,867,000 19,269,000 Valuation allowance for deferred tax assets..... (13,867,000) (19,269,000) ----------- ----------- Net deferred tax assets..... $ -- $ -- ========== ==========

9. SEGMENTS

During 2000, the Company commenced commercial operations and realigned its operating structure into two reportable segments, products and imaging services. The Company's new reporting segments have been determined based on the nature of the products and/or services offered to customers or the nature of their function in the organization. The Company evaluates performance and allocates certain costs based on the percentage of sales contributed by each segment. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. In prior years, the Company operated in one reportable segment, which is not comparable to the two

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS

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reportable segments in fiscal 2000 and thereafter. As a result, prior years have been presented as "Other" in the information shown below.

	SIX MONTHS ENDED		YEARS ENDED DECEMBER 31,		JUNE 30,
	1998	1999	2000	2000	2001
REVENUES BY SEGMENT:					
Products	$ --	$ --	$ 5,815,474	$ 1,456,480	$ 9,802,365
Imaging services	--	--	1,259,948	--	4,216,575
Other	1,920,969	283,889	--	--	--
Consolidated revenues	$ 1,920,969	$ 283,889	$ 7,075,422	$ 1,456,480	$14,018,940
GROSS PROFIT (LOSS) BY SEGMENT:					
Products	$ --	$ --	$ (4,018,877)	$(2,145,323)	$ 3,364,596
Imaging services	--	--	420,652	--	822,212
Other	1,532,797	19,344	--	--	--
Consolidated gross profit (loss)	$ 1,532,797	$ 19,344	$ (3,598,225)	$(2,145,323)	$ 4,186,808
NET LOSS BY SEGMENT: LOSS FROM OPERATIONS					
Products	$ --	$ --	$(12,324,646)	$(5,594,206)	$(3,041,840)
Imaging services	--	--	(614,434)	--	(2,403,010)
Other					

(7,049,214) (13,465,955) -- -- -- ----
------- ------------ ------------ ----
------- ----------- Consolidated loss
from operations.... (7,049,214)
(13,465,955) (12,939,080) (5,594,206)
(5,444,850) RECONCILING ITEMS Interest
income..... 903,294
360,476 242,831 123,736 144,732
Interest
expense.....
(46,041) (86,942) (780,123) (220,704)
(545,391) ----------- ------------ ---
--------- ----------- -----------
Consolidated net loss.....
$(6,191,961) $(13,192,421)
$(13,476,372) $(5,691,174)
$(5,845,509) =========== ============
============ =========== ===========
DEPRECIATION AND AMORTIZATION BY
SEGMENT:
Products.....
$ -- $ -- $ 890,763 $ 371,141 $
542,249 Imaging
services..... -- --
257,820 -- 638,797
Other.....
573,030 733,947 -- -- -- ----------- -
---------- ------------ ----------- -
---------- Consolidated depreciation
and
amortization..... $
573,030 $ 733,947 $ 1,148,583 $
371,141 $ 1,181,046 ===========
============ ============ ===========
========== IDENTIFIABLE ASSETS BY
SEGMENT:
Products.....
$ -- $ -- $ 16,001,066 $12,489,000
$23,654,270 Imaging
services..... -- --
7,206,343 -- 4,903,042
Other.....
16,365,039 5,699,304 -- -- -- --------
--- ------------ ------------ --------
--- ----------- Consolidated
assets..... $16,365,039 $
5,699,304 $ 23,207,409 $12,489,000
$28,557,312 =========== ============
============ =========== ===========

Sales to a distributor in Japan represented 8.5% and 5.0% of total revenues for the year ended December 31, 2000 and the six months ended June 30, 2001, respectively. The Company did not have any foreign sales for the years ended December 31, 1998 and 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION AS OF JUNE 30, 2001 AND FOR THE SIX MONTHS

ENDED JUNE 30, 2000 AND 2001 IS UNAUDITED)

10. EMPLOYEE RETIREMENT PLAN

The Company has a 401(k) retirement plan (the "Plan"), under which all full-time employees may contribute up to 15% of their annual salary, within limits. The Company may elect to make discretionary contributions upon the approval of the Board of Directors. Through June 30, 2001, the Company had not contributed to the Plan.

11. SUBSEQUENT EVENTS

On August 23, 2001, the Company issued 2,618,462 shares of Series F preferred stock at $3.25 per share for total proceeds of $8,510,002. These holders of the Series F preferred stock are entitled to similar rights and privileges as described in Note 6, except that the price-based antidilution provisions of the Series F preferred stock were modified.

In July 2001, the Company was served with notice that a complaint had been filed by Medical Management Concepts, Inc. in the United States District Court for the

Eastern District of Pennsylvania. The complaint alleges, among other things, breach of the terms of a Services Agreement and an Employee Lease Agreement, each dated September 2000 and entered into by and between DIS and MMC. This complaint seeks recovery of damages for approximately $81,000 plus 12.5% of the adjusted estimated net revenue generated from gross sums billed to our mobile nuclear imaging customers from May 1, 2001 to October 31, 2003. The Company believes it has meritorious defenses against this complaint and that its ultimate resolution will not have a material impact on the financial statements.

[LOGO]

Part II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The expenses to be paid by the Registrant are as follows. All amounts other than the SEC registration fee, the NASD filing fees and the Nasdaq National Market listing fee are estimates.

AMOUNT TO BE PAID	
SEC registration fee	$
NASD filing fee	
Nasdaq National Market listing fee	
Legal fees and expenses	
Accounting fees and expenses	
Printing and engraving	
Blue sky fees and expenses (including legal fees)	
Transfer agent fees	
Miscellaneous	
Total	$

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law permits a corporation to include in its charter documents, and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification beyond that specifically provided by the current law.

Article IV of the Registrant's amended and restated certificate of incorporation allows for the indemnification of directors and officers to the fullest extent permissible under Delaware law.

Article VI of the Registrant's bylaws provides for the indemnification of officers, directors and third parties acting on behalf of us if such person acted in good faith and in a manner reasonably believed to be in and not opposed to our best interest, and, with respect to any criminal action or proceeding, the indemnified party had no reason to believe his or her conduct was unlawful.

The Registrant has entered into indemnification agreements with our directors and executive officers, in addition to indemnification provided for in our bylaws, and intends to enter into indemnification agreements with any new directors and executive officers in the future. The indemnification agreements may require the Registrant, among other things, to indemnify our directors and officers against certain liabilities that may arise by reason of their status or service as directors and officers (other than liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain directors' and officers' insurance, if available on reasonable terms. At present, there is no litigation or proceeding pending involving a director, officer or employee of the Registrant regarding which indemnification is sought, nor is the Registrant aware of any threatened litigation that may result in claims for indemnification.

Reference is also made to Section of the Underwriting Agreement, which provides for the indemnification of officers, directors and controlling persons of the Registrant against certain liabilities. The indemnification provision in the Registrant's amended and restated certificate of incorporation, bylaws and the indemnification agreements entered into between the Registrant and each of its

directors and executive officers may be sufficiently broad to permit indemnification of the Registrant's directors and executive officers for liabilities arising under the Securities Act of 1933.

The Registrant applied for liability insurance for our officers and directors.

Reference is made to the following documents filed as exhibits to this Registration Statement regarding relevant indemnification provisions described above and elsewhere in this prospectus:

EXHIBIT DOCUMENT NUMBER	
Form of Underwriting Agreement	1.1
Form of Amended and Restated Certificate of Incorporation to be in effect immediately prior to the closing of this offering	
3.2 Form of Amended and Restated Bylaws to be in effect immediately prior to the closing of this offering	
3.4 Form of Indemnification Agreement	10.28

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

(1) On June 23, 1998, the Registrant issued and sold 494,071 shares of its Series E Preferred Stock to Johnson & Johnson Development Corporation for an aggregate purchase price of $1,500,000. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuance was made without general solicitation or advertising. The purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(2) On October 27, 1999, the Registrant issued warrants to purchase up to 197,628 shares of its Series E Preferred Stock with an exercise price of $3.036 per share to 2 purchasers in connection with a Loan and Security Agreement under which the purchasers agreed to loan the Registrant up to $2,000,000. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(3) On March 15, 2000, the Registrant issued and sold 2,194,797 shares of its Series E Preferred Stock to 10 purchasers for an aggregate purchase price of $6,663,415. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(4) On April 6, 2000, the Registrant issued and sold 1,151,407 shares of its Series E Preferred Stock to 6 purchasers for an aggregate purchase price of $3,495,676. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(5) On May 9, 2000, the Registrant issued warrants to purchase up to 31,208 shares of its Series E Preferred Stock with an exercise price of $3.036 per share to 2 purchasers in connection with a Loan and Security Agreement between the parties in which the purchasers agreed to loan the Registrant up to $2,000,000. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general

solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(6) On June 9, 2000, the Registrant issued and sold 164,690 shares of its Series E Preferred Stock to Ocean Avenue Investors, LLC--Anacapa Fund I for an aggregate purchase price of $500,000. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities

Act of 1933. The issuance was made without general solicitation or advertising. The purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(7) On September 29, 2000, the Registrant issued and sold to 5 purchasers convertible promissory notes in the aggregate principal amount of $2,000,000 that were convertible into shares of the Registrant's Series E Preferred Stock. In consideration for entering into the promissory notes, the Registrant also issued the purchasers warrants to purchase up to 65,875 shares of the Registrant's Series E Preferred Stock at an exercise price of $3.036 per share. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(8) On August 14, 2000, the Registrant issued warrants to purchase up to 65,877 shares of its Series E Preferred Stock with an exercise price of $3.036 per share to 2 purchasers in connection with a Loan and Security Agreement between the parties in which the purchasers agreed to loan the Registrant up to $1,000,000. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(9) On November 10, 2000, the Registrant issued and sold 3,005,595 shares of its Series E Preferred Stock to 10 purchasers for an aggregate purchase price of $9,124,987, which amount reflected the conversion of $2,000,000 of the Registrant's convertible promissory notes into shares of Series E Preferred Stock. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(10) On November 14, 2000, the Registrant issued a warrant to purchase up to 10,000 shares of its Common Stock with an exercise price of $1.50 per share to Cardiovascular Consultants in connection with a consulting relationship. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuance was made without general solicitation or advertising. The purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(11) On November 14, 2000, the Registrant issued a warrant to purchase up to 500 shares of its Common Stock with an exercise price of $3.04 per share to Robert McKenzie in connection with a consulting relationship. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuance was made without general

solicitation or advertising. The purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(12) On December 8, 2000, the Registrant issued and sold 181,157 shares of its Series E Preferred Stock to 6 purchasers for an aggregate purchase price of $549,993. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(13) On December 14, 2000, the Registrant issued 300,000 shares of its Common Stock to Dr. John F. Kilgore in connection with Dr. Kilgore's entering into a Non-Competition and Non-Disclosure Agreement. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuance was made without general solicitation or advertising. Dr. Kilgore was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(14) On January 4, 2001, the Registrant issued warrants to purchase up to

20,000 shares of its Common Stock with an exercise price of $1.50 per share to 2 purchasers in connection with consulting relationships. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(15) On January 19, 2001, the Registrant issued and sold 683,463 shares of its Series E Preferred Stock to 4 purchasers for an aggregate purchase price of $2,074,994. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(16) On January 26, 2001, the Registrant issued a warrant to purchase up to 20,000 shares of its Common Stock with an exercise price of $2.00 per share to Oklahoma Cardiovascular Associates in connection with a consulting relationship. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuance was made without general solicitation or advertising. The purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(17) On March 1, 2001, the Registrant issued warrants to purchase up to 10,000 shares of its Common Stock with an exercise price of $3.04 per share to 2 purchasers in connection with consulting relationships. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(18) On March 9, 2001, the Registrant issued and sold 150,362 shares of its Series E Preferred Stock to 3 purchasers for an aggregate purchase price of $456,499. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of

1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(19) On March 16, 2001, the Registrant issued and sold 296,050 shares of its Series E Preferred Stock to 11 purchasers for an aggregate purchase price of $898,808. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(20) On March 28, 2001, the Registrant issued warrants to purchase up to 20,000 shares of its Common Stock with an exercise price of $3.04 per share to 2 purchasers in connection with consulting relationships. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(21) On April 9, 2001, the Registrant issued and sold 808,836 shares of its Series E Preferred Stock to Merrill Lynch Ventures, LLC for an aggregate purchase price of $2,455,626. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuance was made without general solicitation or advertising. The purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(22) On May 15, 2001, the Registrant issued warrants to purchase up to 20,000 shares of its Common Stock with an exercise price of $3.04 per share to 3 purchasers in connection with consulting relationships. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the

Registrant that the securities were being acquired for investment;

(23) On July 31, 2001, the Registrant issued a warrant to purchase up to 42,490 shares of its Series E Preferred Stock to Silicon Valley Bank in connection with a Loan and Security Agreement. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuance was made without general solicitation or advertising. The purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(24) On July 31, 2001, the Registrant issued a warrant to purchase up to 100,000 shares of its Common Stock to McAdams and Whitman Consulting in connection with a Consulting Agreement. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuance was made without general solicitation or advertising. The purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(25) On August 23, 2001, the Registrant issued and sold 2,618,462 shares of its Series F Preferred Stock to 25 purchasers for an aggregate purchase price of $8,510,002. The Registrant relied on the exemption provided by Section 4(2) and/or Regulation D promulgated under the Securities Act of 1933. The issuances were made without general solicitation or advertising. Each purchaser was a

sophisticated investor with access to all relevant information necessary to evaluate the investment and represented to the Registrant that the securities were being acquired for investment;

(26) Prior to January 1, 1998, the Registrant granted options to purchase shares of its Common Stock to various directors, employees and consultants pursuant to its 1995 Stock Option Plan. With respect to all grants of options, each of the issuances were exempt from the registration requirements of the Securities Act of 1933 either by virtue of either (a) Section 4(2) as transactions not involving a public offering, or (b) Rule 701;

(27) From time to time since January 1, 1998, the Registrant has granted options to purchase shares of its Common Stock to various directors, employees and consultants pursuant to its 1997 Stock Option/Stock Issuance Plan. With respect to all grants of options, each of the issuances were exempt from the registration requirements of the Securities Act of 1933 either by virtue of (a) Section 4(2) as transactions not involving a public offering, or (b) Rule 701;

(28) From time to time since January 1, 1998, the Registrant has granted options to purchase shares of its Common Stock to various directors, employees and consultants pursuant to its 1998 Stock Option/Stock Issuance Plan. With respect to all grants of options, each of the issuances were exempt from the registration requirements of the Securities Act of 1933 either by virtue of (a) Section 4(2) as transactions not involving a public offering, or (b) Rule 701;

(29) As of August 23, 2001, the Registrant has issued and sold, in the aggregate, 393,774 shares of its Common Stock at a per share exercise price of $0.21 to $0.75 to directors, employees and consultants pursuant to their exercise of options to purchase Common Stock issued pursuant under the Registrant's 1995 Stock Option Plan;

(30) As of August 23, 2001, the Registrant has issued and sold, in the aggregate, 127,161 shares of its Common Stock at a per share exercise price of $0.21 to $0.35 to employees and consultants pursuant to their exercise of options to purchase Common Stock issued pursuant under the Registrant's 1997 Stock Option/Stock Issuance Plan; and

(31) As of August 23, 2001, the Registrant has issued and sold, in the aggregate, 518,789 shares of its Common Stock for per share exercise prices ranging from $0.35 to $1.50 to directors, employees and consultants pursuant to their exercise of options to purchase Common Stock issued pursuant under the Registrant's 1998 Stock Option/Stock Issuance Plan.

The recipients of the above-described securities represented their intention to acquire the securities for investment only and not with a view to distribution thereof. Appropriate legends were affixed to the stock certificates issued in such transactions. All recipients had adequate access, through employment or other relationships, to information about the Registrant. No underwriters were involved in the distribution of the above-described securities.

PART II

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

NUMBER	DESCRIPTION
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation.
3.2*	Form of Amended and Restated Certificate of Incorporation to be in effect immediately prior to the closing of the initial public offering.
3.3	Bylaws.
3.4*	Form of Amended and Restated Bylaws to be in effect immediately prior to the closing of the initial public offering.
4.1*	Form of Specimen Common Stock Certificate.
5.1*	Opinion of Brobeck, Phleger & Harrison LLP.
10.1+	License Agreement by and between Registrant and the Regents of the University of California, dated May 19, 1999, as amended.
10.2+	Software License Agreement by and between Registrant and Segami Corporation, dated June 16, 1999.
10.3+	Loan and Security Agreement by and between

Registrant and MMC/GATX Partnership No. I, dated October 27, 1999, as amended. 10.4 Promissory Note Agreement by and between Registrant and MMC/GATX Partnership No. I, dated November 1, 1999. 10.5 Promissory Note Agreement by and between Registrant and MMC/GATX Partnership No. I, dated May 12, 2000, as amended. 10.6 Promissory Note Agreement by and between Registrant and MMC/GATX Partnership No. I, dated August 15, 2000, as amended. 10.7+ Loan and Security Agreement by and between Registrant and Silicon Valley Bank, dated April 1, 2000, as amended. 10.8* Loan and Security Agreement by and between Orion Imaging Systems, Inc., Digirad Imaging Systems, Inc. and Heller Healthcare Finance, Inc., dated January 9, 2001. 10.9* Master Lease Agreement by and between Registrant and GE Healthcare Financial Services, dated September 26, 2000. 10.10 Equipment Lease Agreement by and between Registrant and MarCap Corporation, dated October 1, 2000. 10.11 Lease Agreement by

and between Registrant and Judd/King No. 1, a California general partnership, dated January 27, 1998, as amended, for the property located at 9350 Trade Place, San Diego, California. 10.12 Asset Purchase Agreement by and among Digirad Imaging Systems, Inc., Nuclear Imaging Systems, Inc. and Cardiovascular Concepts, P.C., dated September 29, 2000. 10.13* Asset Purchase Agreement by and among Registrant, Orion Imaging Systems, Inc., Florida Cardiology and Nuclear Medicine Group, P.A. and Dr. John Kilgore, dated August 31, 2000, as amended. 10.14 Convertible Promissory Note and Warrant Purchase Agreement by and among Registrant and the investors listed on Exhibit A, dated September 29, 2000. 10.15 Form of Warrant to purchase shares of Series E Preferred Stock by and between Registrant and the investors listed on the attached schedule. 10.16 Form of Warrant to purchase shares of Common Stock by and between

Registrant and the investors listed on the attached schedule.

10.17+ Fourth Additional Series E Preferred Stock Purchase Agreement by and among Registrant and the investors listed on Schedule 1 thereto, dated November 10, 2000, as amended.

PART II

NUMBER	DESCRIPTION
10.18+	Series F Preferred Stock Purchase Agreement by and among Registrant and the investors listed on Schedule 1 thereto, dated August 23, 2001.
10.19	Amended and Restated Investors' Rights Agreement by and among Registrant and the investors listed on Schedule A thereto, dated August 23, 2001.
10.20	Amended and Restated Co-Sale Agreement by and among Registrant and the investors listed on Schedule A thereto, dated November 10, 2000.
10.21	Amended and Restated Series E Voting Agreement by and among Registrant and the investors listed therein,

dated November 10, 2000. 10.22 1998 Stock Option/Stock Issuance Plan, as amended. 10.23 1998 Stock Option/Stock Issuance Plan, Form of Notice of Grant. 10.24 1998 Stock Option/Stock Issuance Plan, Form of Stock Option Agreement. 10.25 1998 Stock Option/Stock Issuance Plan, Form of Stock Purchase Agreement. 10.26* 2001 Stock Incentive Plan. 10.27* Form of Indemnification Agreement. 10.28+ Consulting Agreement dated July 31, 2001. 10.29+ Service Agreement by and between Registrant and Universal Servicetrends, Inc., dated August 25, 2000. 10.30 Master Equipment Lease Agreement by and between Registrant and DVI Financial Services, Inc., dated May 24, 2001. 10.31 Loan Agreement by and between Registrant and Gerald G. Loehr Trust, dated September 1, 1993, as amended. 10.32 Loan Agreement by and between Registrant and Clinton L. Lingren, dated September 1, 1993, as amended. 10.33 Loan Agreement by and between Registrant and Jack F. Butler, dated September 1, 1993, as amended. 10.34* Form of Warrant to purchase shares of Series E Preferred Stock by and between Registrant and the investors listed on the attached

schedule. 10.35 Warrant to purchase shares of Series E Preferred Stock by and between Registrant and Silicon Valley Bank, dated July 31, 2001. 10.36+* Warrant Issuance Agreement, dated July 31, 2001. 10.37+* Warrant to purchase shares of Common Stock, dated July 31, 2001. 21.1 Subsidiaries of Registrant. 23.1 Consent of Ernst & Young LLP, Independent Auditors. 23.2* Consent of Brobeck, Phleger & Harrison LLP (included in Exhibit 5.1). 24.1 Powers of Attorney (included in the Signature Page).

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* To be filed by amendment.

\+ Certain portions of this Exhibit for which confidential treatment has been requested have been redacted and filed separately with the Securities and Exchange Commission.

(b) Financial Statement Schedules.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

All other schedules are omitted because they are not applicable or not required or because the required information is shown in the Consolidated Financial Statements of Digirad Corporation or the notes thereto.

PART II

ITEM 17. UNDERTAKINGS

The undersigned Registrant hereby undertakes to provide to the Underwriter at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the Underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933 the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424 (b)(1) or (4), or 497(h) under the Securities Act of 1933 shall be deemed to be part of this Registration Statement as of the time it was declared effective; and

(2) For the purpose of determining any liability under the Securities Act of 1933 each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in San Diego, California, on this 5th day of October 2001.

DIGIRAD CORPORATION

By: /s/ GARY J. G. ATKINSON

Name: Gary J. G. Atkinson
Title: CHIEF FINANCIAL OFFICER

Pursuant to the requirements of the Securities Act of 1933 this Registration Statement has been signed by the following persons in the capacities indicated on October 5, 2001:

SIGNATURE	TITLE	DATE
*	President, Chief Executive Officer	October 5, 2001
R. Scott Huennekens	Director	October 5, 2001
/s/ GARY J. G. ATKINSON	Chief Financial Officer (principal	October 5, 2001
Gary		

J. G. Atkinson financial and accounting officer)	--
Chairman of the Board of Directors	October 5, 2001
Timothy J. Wollaeger	---
Director	October 5, 2001
R. King Nelson	---
Director	October 5, 2001
Brad Nutter	---
Director	October 5, 2001
Kenneth E. Olson	----
Director	October 5, 2001
Douglas Reed, M.D.	

*By: /s/ GARY J. G. ATKINSON
Gary J. G. Atkinson
ATTORNEY IN FACT

SCHEDULE II

DIGIRAD CORPORATION
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	RESERVES FOR EXCESS AND OBSOLETE PRODUCT	RESERVES FOR BAD DEBT	RESERVES FOR INVENTORY	RESERVES FOR WARRANTY	
Balance at December 31, 1997	$ --	$ --	$ --		
Provision	--	--	--		
Write-offs and recoveries, net	--	--	--		
Balance at December 31, 1998	--	--	--		
Provision	--	--	22,523		
Write-offs and recoveries, net	--	--	--		

Balance at December 31, 1999	--	--	22,523		
Provision	39,121	135,000	2,062,427		
Write-offs and recoveries, net	--	--	(1,050,950)		
Balance at December 31, 2000	$39,121	$135,000	$ 1,034,000		

Index to exhibits

NUMBER	DESCRIPTION
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation.
3.2*	Form of Amended and Restated Certificate of Incorporation to be in effect immediately prior to the closing of the initial public offering.
3.3	Bylaws.
3.4*	Form of Amended and Restated Bylaws to be in effect immediately prior to the closing of the initial public offering.
4.1*	Form of Specimen Common Stock Certificate.
5.1*	Opinion of Brobeck, Phleger & Harrison LLP.
10.1+	License Agreement by and between Registrant and the Regents of the University of California, dated May 19, 1999, as amended.
10.2+	Software License Agreement by and between

Registrant and Segami Corporation, dated June 16, 1999. 10.3+ Loan and Security Agreement by and between Registrant and MMC/GATX Partnership No. I, dated October 27, 1999, as amended. 10.4 Promissory Note Agreement by and between Registrant and MMC/GATX Partnership No. I, dated November 1, 1999. 10.5 Promissory Note Agreement by and between Registrant and MMC/GATX Partnership No. I, dated May 12, 2000, as amended. 10.6 Promissory Note Agreement by and between Registrant and MMC/GATX Partnership No. I, dated August 15, 2000, as amended. 10.7+ Loan and Security Agreement by and between Registrant and Silicon Valley Bank, dated April 1, 2000, as amended. 10.8* Loan and Security Agreement by and between Orion Imaging Systems, Inc., Digirad Imaging Systems, Inc. and Heller Healthcare Finance, Inc., dated January 9, 2001. 10.9* Master Lease Agreement by and between Registrant and GE Healthcare Financial Services, dated September 26, 2000. 10.10 Equipment Lease

Agreement by and between Registrant and MarCap Corporation, dated October 1, 2000. 10.11 Lease Agreement by and between Registrant and Judd/King No. 1, a California general partnership, dated January 27, 1998, as amended, for the property located at 9350 Trade Place, San Diego, California. 10.12 Asset Purchase Agreement by and among Digirad Imaging Systems, Inc., Nuclear Imaging Systems, Inc. and Cardiovascular Concepts, P.C., dated September 29, 2000. 10.13* Asset Purchase Agreement by and among Registrant, Orion Imaging Systems, Inc., Florida Cardiology and Nuclear Medicine Group, P.A. and Dr. John Kilgore, dated August 31, 2000, as amended. 10.14 Convertible Promissory Note and Warrant Purchase Agreement by and among Registrant and the investors listed on Exhibit A, dated September 29, 2000. 10.15 Form of Warrant to purchase shares of Series E Preferred Stock by and between Registrant and the investors listed on the

attached schedule.

10.16 Form of Warrant to purchase shares of Common Stock by and between Registrant and the investors listed on the attached schedule.

10.17+ Fourth Additional Series E Preferred Stock Purchase Agreement by and among Registrant and the investors listed on Schedule 1 thereto, dated November 10, 2000, as amended.

10.18+ Series F Preferred Stock Purchase Agreement by and among Registrant and the investors listed on Schedule 1 thereto, dated August 23, 2001.

10.19 Amended and Restated Investors' Rights Agreement by and among Registrant and the investors listed on Schedule A thereto, dated August 23, 2001.

INDEX TO EXHIBITS

NUMBER	DESCRIPTION
10.20	Amended and Restated Co-Sale Agreement by and among Registrant and the investors listed on Schedule A thereto, dated

November 10, 2000. 10.21 Amended and Restated Series E Voting Agreement by and among Registrant and the investors listed therein, dated November 10, 2000. 10.22 1998 Stock Option/Stock Issuance Plan, as amended. 10.23 1998 Stock Option/Stock Issuance Plan, Form of Notice of Grant. 10.24 1998 Stock Option/Stock Issuance Plan, Form of Stock Option Agreement. 10.25 1998 Stock Option/Stock Issuance Plan, Form of Stock Purchase Agreement. 10.26* 2001 Stock Incentive Plan. 10.27* Form of Indemnification Agreement. 10.28+ Consulting Agreement dated July 31, 2001. 10.29+ Service Agreement by and between Registrant and Universal Servicetrends, Inc., dated August 25, 2000. 10.30 Master Equipment Lease Agreement by and between Registrant and DVI Financial Services, Inc., dated May 24, 2001. 10.31 Loan Agreement by and between Registrant and Gerald G. Loehr Trust, dated September 1, 1993, as amended. 10.32 Loan Agreement by and between Registrant and Clinton L. Lingren, dated September 1, 1993, as amended. 10.33 Loan Agreement by and between Registrant and Jack F. Butler, dated September 1, 1993, as amended. 10.34*

Form of Warrant to purchase shares of Series E Preferred Stock by and between Registrant and the investors listed on the attached schedule. 10.35 Warrant to purchase shares of Series E Preferred Stock by and between Registrant and Silicon Valley Bank, dated July 31, 2001. 10.36+* Warrant Issuance Agreement, dated July 31, 2001. 10.37+* Warrant to purchase shares of Common Stock, dated July 31, 2001. 21.1 Subsidiaries of Registrant. 23.1 Consent of Ernst & Young LLP, Independent Auditors. 23.2* Consent of Brobeck, Phleger & Harrison LLP (included in Exhibit 5.1). 24.1 Powers of Attorney (included in the Signature Page).

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* To be filed by amendment.

\+ Certain portions of this Exhibit for which confidential treatment has been requested have been redacted and filed separately with the Securities and Exchange Commission.

EXHIBIT 3.1

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

DIGIRAD CORPORATION

Digirad Corporation, a corporation organized and existing under the laws of the state of Delaware, hereby certifies as follows:

1. The name of the corporation is Digirad Corporation. The date the Corporation filed its original Certificate of Incorporation with the Secretary of State was January 2, 1997.

2. This Amended and Restated Certificate of Incorporation restates and amends the provisions of the original Certificate of Incorporation of this Corporation as heretofore in effect and was duly adopted by the Corporation's Board of Directors in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware.

3. The text of the Certificate of Incorporation is hereby amended and restated to read as herein set forth in full:

ARTICLE I

The name of the Corporation (hereinafter called "Corporation") is Digirad Corporation.

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is 30 Old Rudnick Lane, City of Dover, County of Kent 19901, and the name of the registered agent of the Corporation in the State of Delaware at such address is CorpAmerica, Inc.

ARTICLE III

The purpose of this Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

A. CLASSES OF STOCK. This Corporation is authorized to issue two (2) classes of shares, to be designated "Common" and "Preferred" and referred to herein as the "Common Stock" or the "Preferred Stock" respectively. The total number of shares of Common Stock the Corporation is authorized to issue is Forty Two Million Seven Hundred Thirty Eight Thousand Four Hundred Sixty-Two (42,738,462). The par value is $0.001 per share. The total number of shares of Preferred Stock the Corporation is authorized to issue is Thirty Million Three Hundred Twenty One Thousand One Hundred Eight (30,321,108). The par value is $0.001 per share.

The Board of Directors of the Corporation may divide the Preferred Stock into any number of series. The Board of Directors shall fix the designation and number of shares of each such series. The Board of Directors may determine and alter the rights, preferences, privileges and restrictions granted to and imposed upon any wholly unissued series of the Preferred Stock. The Board of Directors (within the limits and restrictions of any resolution adopted by it, originally fixing the number of shares of any series) may increase or decrease the number of shares of any such series after the issue of shares of that series, but not below the number of then outstanding shares of such series.

B. RIGHTS, PREFERENCES, PRIVILEGES AND RESTRICTIONS OF THE SERIES A PREFERRED STOCK, SERIES B PREFERRED STOCK, SERIES C PREFERRED STOCK, SERIES D PREFERRED STOCK, SERIES E PREFERRED STOCK AND SERIES F PREFERRED STOCK.

1. DESIGNATION OF SERIES A PREFERRED STOCK, SERIES B PREFERRED STOCK, SERIES C PREFERRED STOCK, SERIES D PREFERRED STOCK, SERIES E PREFERRED STOCK AND SERIES F PREFERRED STOCK.

Two Million Two Hundred Fifty Thousand (2,250,000) shares of Preferred Stock are designated Series A Preferred Stock (the "Series A Preferred Stock") with the rights, preferences and privileges specified herein. Two Million Two Hundred Eighty One Thousand (2,281,000) shares of Preferred Stock are designated Series B Preferred Stock (the "Series B Preferred Stock") with the rights, preferences and privileges specified herein. Four Million Eight Hundred Thousand (4,800,000) shares of Preferred Stock are designated Series C Preferred Stock (the "Series C Preferred Stock") with the rights, preferences and privileges specified herein. Eight

Million Six Hundred Sixty Eight Thousand One Hundred Forty (8,668,140) shares of Preferred Stock are designated Series D Preferred Stock (the "Series D Preferred Stock") with the rights, preferences and privileges specified herein. Nine Million Five Hundred Eighty Three Thousand Five Hundred Six (9,583,506) shares of Preferred Stock are designated Series E Preferred Stock (the "Series E Preferred Stock") with the rights, preferences and privileges specified herein. Two Million Seven Hundred Thirty Eight Thousand Four Hundred Sixty Two (2,738,462) shares of Preferred Stock are designated Series F Preferred Stock (the "Series F Preferred Stock") with the rights, preferences and privileges specified herein. As used in this Article IV, Division B, the term "Preferred Stock" shall refer to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock.

2. DIVIDEND PROVISIONS.

The holders of shares of Preferred Stock shall be entitled to receive non-cumulative dividends, out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock of this Corporation) on the Common Stock or any other junior equity security of this Corporation, at the rate of $.10 per share of Series A Preferred Stock, $.11 per share of Series B Preferred Stock, $.125 per share of Series C Preferred Stock, $.23073 per share of Series D Preferred Stock and $.3036 per share of Series E Preferred Stock and $.325 per share of Series F Preferred Stock per annum plus an amount equal to that paid on outstanding shares of Common Stock of this Corporation, whenever funds are legally available therefor, payable quarterly when, as and if

declared by the Board of Directors and shall be non-cumulative. Dividends, if declared, must be declared and paid with respect to all series of Preferred Stock contemporaneously, and if less than full dividends are declared, the same percentage of the dividend rate will be payable to each series of Preferred Stock.

3. LIQUIDATION PREFERENCE.

(a) In the event of any liquidation, dissolution or winding up of this Corporation, either voluntary or involuntary, the holders of Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of this Corporation to the holders of Common Stock or any other junior equity security by reason of their ownership thereof an amount for each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, respectively, held by such holder equal to the sum of (i) $1.00 for each such outstanding share of Series A Preferred Stock (the "Original Series A Issue Price"), (ii) $1.10 for each such outstanding share of Series B Preferred Stock (the "Original Series B Issue Price"), (iii) $1.25 for each such outstanding share of Series C Preferred Stock (the "Original Series C Issue Price"), (iv) $2.3073 for each outstanding share of Series D Preferred Stock (the "Original Series D Issue Price"), (v) $3.036 for each outstanding share of Series E Preferred Stock (the "Original Series E Issue Price"), (vi) $3.25 for each outstanding share of Series F Preferred Stock (the "Original Series F Issue Price") and (vii) in each case, an amount equal to all declared but unpaid dividends on each such share. If upon the occurrence of such an event the assets and funds thus distributed among the holders of the Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of this Corporation legally available for distribution shall be distributed, ratably among the holders of the Preferred Stock in proportion to the product of the liquidation preference of each such share and the number of such shares owned by each such holder.

(b) Upon the completion of the distribution required by subsection 3(a) above, if assets remain in the Corporation, the holders of the Common Stock shall receive an amount equal to $.21 per share (adjusted to reflect any subsequent stock splits, stock dividends, or other recapitalizations) for each share of Common Stock held by them. If, upon the occurrence of such event, the assets and funds thus distributed among the holders of the Common Stock shall be insufficient to permit payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of this Corporation legally available for distribution (after giving effect to the distribution referred to in Section 3(a) hereof) shall be distributed ratably among the holders of the Common Stock in proportion to the amount of such stock owned by each such holder.

(c) After the distributions described in subsections 3(a) and (b) have been paid, the remaining assets of this Corporation available for distribution to stockholders shall be distributed among the holders of Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock held by each (assuming conversion of all such Preferred Stock).

4. REDEMPTION.

(a) The outstanding Preferred Stock shall be redeemable as provided in this Section 4. The Series A Redemption Price shall be the total amount equal to $1.00 per share of Series A Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date (as such term is hereinafter defined). The Series B Redemption Price shall be the total amount equal to $1.10 per share of Series B Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series C Redemption Price shall be the total amount equal to $1.25 per share of Series C Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series D Redemption Price shall be the total amount equal to $2.3073 per share of Series D Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series E Redemption Price shall be the total amount equal to $3.036 per share of Series E Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series F Redemption Price shall be the total amount equal to $3.25 per share of Series F Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date.

(b) On or at any time after July 31, 2004, upon the receipt by this Corporation from the holders of at least 66-2/3% of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, voting together as a single class and on an as-converted basis, of a written request for redemption hereunder of their respective shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock (the "Redemption Request"), this Corporation shall, from any source of funds legally available therefor, redeem all of the shares of Preferred Stock by paying in cash therefor a sum equal to the Series A Redemption Price, the Series B Redemption Price, the Series C Redemption Price, the Series D Redemption Price, the Series E Redemption Price and the Series F Redemption Price, respectively.

(c) (i) At least 15, but no more than 30, days prior to the date fixed for any redemption of the Preferred Stock (the "Redemption Date"), which Redemption Date shall be no later than 45 days following the Corporation's receipt of the Redemption Request, this Corporation shall mail written notice, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock to be redeemed at the address last shown on the records of this Corporation for such holder or given by the holder to this Corporation for the purpose of notice or if no such address appears or is given, at the place where the principal executive office of this Corporation is located, notifying such holder of the redemption to be effected, specifying the number of shares to be redeemed from such holder, the Redemption Date, the Series A Redemption Price, the Series B Redemption Price, the Series C Redemption Price, the Series D Redemption Price, the Series E Redemption Price or the Series F Redemption Price, as the case may be, the place at which payment may be obtained and the date on which such holder's Conversion Rights (as hereinafter defined) as to such shares terminate, and calling upon such holder to surrender to this Corporation, in the manner and at the place

designated, such holder's certificate or certificates representing the shares to be redeemed (the "Redemption Notice"). Except as provided in subsection 4(c)(iii), on or after the Redemption Date, each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock to be redeemed shall surrender to this Corporation the certificate or certificates representing such shares, in the manner and at the place designated in the Redemption Notice, and thereupon the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, the Series D Redemption Price, the Series E Redemption Price or the Series F Redemption Price, as the case may be, of such shares shall be payable, to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(ii) If the funds of the Corporation legally available

for redemption of outstanding shares of Preferred Stock on any Redemption Date are insufficient to redeem the total number of shares of Preferred Stock to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such shares ratably among the holders of (A) first, such shares of Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock to be redeemed, and (B) second, such shares of Series A Preferred Stock to be redeemed. The shares of Preferred Stock not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein. At any time thereafter when additional funds of this Corporation are legally available for the redemption of shares of Preferred Stock, such funds shall immediately be used to redeem the balance of the shares which this Corporation has become obligated to redeem on any Redemption Date but which it has not redeemed.

(iii) From and after the Redemption Date, unless there shall have been a default in payment of the applicable Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price, Series E Redemption Price or Series F Redemption Price, all rights of the holders of such shares as holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock (except the right to receive the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price, Series E Redemption Price or Series F Redemption Price, without interest, upon surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of this Corporation or be deemed to be outstanding for any purpose whatsoever.

(iv) At least three days prior to the Redemption Date, this Corporation shall deposit the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price, Series E Redemption Price and Series F Redemption Price, of all outstanding shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, designated for redemption in the Redemption Notice, and not yet redeemed or converted, with a bank or trust company having aggregate capital and surplus in excess of $50,000,000, as a trust fund for the benefit of the holders of the shares designated for redemption and not yet redeemed. Simultaneously, this Corporation shall deposit irrevocable instructions

and authority to such bank or trust company to pay, on and after the Redemption Date or prior thereto, the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price, Series E Redemption Price and Series F Redemption Price, as the case may be, to the holders thereof upon surrender of their certificates. Any monies deposited by this Corporation pursuant to this subsection 4(c)(iv) for the redemption of shares which are thereafter converted into shares of Common Stock pursuant to Section 5 hereof no later than the close of business on the Redemption Date shall be returned to this Corporation forthwith upon such conversion. The balance of any monies deposited by this Corporation pursuant to this subsection 4(c)(iv) remaining unclaimed at the expiration of two years following the Redemption Date shall thereafter be returned to this Corporation, provided that the stockholder to which such monies would be payable hereunder shall be entitled, upon proof of its ownership of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock, as the case may be, and payment of any bond requested by this Corporation, to receive such monies but without interest from the Redemption Date.

5. CONVERSION. The holders of Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) RIGHT TO CONVERT.

(i) Subject to subsection 5(c), each outstanding share of Preferred Stock shall be convertible, at the option of the holder thereof at any time after the date of issuance of such share (and on or prior to the fifth day prior to the Redemption Date, if any, as may have been fixed in any Redemption Notice), at the office of this Corporation or any transfer agent for such series of Preferred Stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the Original Series A Issue Price, the Original Series B Issue Price, the Original Series C Issue Price, the Original Series D Issue Price, the Original Series E Issue Price and the Original Series F Issue Price, respectively, by the Conversion Price at the time in effect for such series or shares of such series. The initial Conversion Price per share for shares of Preferred Stock shall be the Original Series A Issue Price, the Original Series B Issue Price, the Original Series C Issue Price, the Original Series

D Issue Price, the Original Series E Issue Price and the Original Series F Issue Price, respectively, provided, however, that the Conversion Prices for the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock and the Series F Preferred Stock shall be subject to adjustment as set forth in subsection 5(c).

(ii) Each outstanding share of Preferred Stock shall automatically be converted into shares of Common Stock at the Conversion Price at the time in effect for such shares immediately upon:

(A) the closing of this Corporation's sale of its Common Stock in a bona fide, firm commitment underwritten public offering registered under the Securities Act of 1933, as amended (the "Securities Act"), which results in aggregate gross offering proceeds to this Corporation of at least $15,000,000, at a public offering price of not less

than $7.50 per share (adjusted to reflect subsequent stock dividends, stock splits or recapitalizations) (a "Qualifying Public Offering"); or

(B) the approval of (i) holders of at least 75% of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, voting together as a single class and on an as-converted basis and (ii) holders of not less than 60% of the Series D Preferred Stock voting as a class, provided, however, that if such approval is in connection with an underwritten offer of securities registered pursuant to the Securities Act, the conversion may be conditioned upon the closing of the sale of securities pursuant to such offering, in which event each outstanding share of Preferred Stock shall not be deemed to have converted until immediately after the closing of such sale of securities.

(b) MECHANICS OF CONVERSION. Before any holder of Preferred Stock shall be entitled to convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of this Corporation or of any transfer agent for such stock, and shall be given written notice by mail postage prepaid, to this Corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. This Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of such series of Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. If the conversion is in connection with an underwritten offer of securities registered pursuant to the Securities Act, the conversion may, at the option of any holder tendering shares of such series of Preferred Stock for conversion, be conditioned upon the closing with the underwriter of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common Stock issuable upon such conversion of shares of such series of Preferred Stock shall not be deemed to have converted such shares of such series of Preferred Stock until immediately after the closing of such sale of securities.

(c) CONVERSION PRICE ADJUSTMENTS OF THE PREFERRED STOCK. The Conversion Prices of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock shall be subject to adjustment from time to time as follows:

(i) (A) (1) If this Corporation shall issue any Additional Stock (as defined below) without consideration or for a consideration per share less than the Conversion Price for shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock in effect immediately prior to the issuance of such Additional Stock, the new Conversion Price for such shares of such series of Preferred Stock shall be determined by multiplying the Conversion Price

for such series of Preferred Stock in effect immediately prior to the issuance of Additional Stock by a fraction:

(x) the numerator of which shall be the

number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of shares of Common Stock equivalents which the aggregate consideration received by this Corporation for the shares of such Additional Stock so issued would purchase at the Conversion Price in effect at the time for the shares of the series of Preferred Stock with respect to which the adjustment is being made; and

(y) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of such shares of Additional Stock so issued.

Any series of issuances of Additional Stock consisting of Common Stock or the same series of Preferred Stock, issued at the same price and within a six-month period, shall be treated as one issuance of Additional Stock for the purposes of this calculation.

(2) If this Corporation shall issue, at any time after the date upon which any shares of Series F Preferred Stock were first issued (the "Series F Purchase Date") and on or before December 31, 2001, any Additional Stock (other than shares of Series F Preferred Stock) without consideration or for a consideration per share less than $3.50 (as adjusted to reflect stock dividends, stock splits or recapitalizations), the new Conversion Price for such shares of Series F Preferred Stock shall be adjusted to a price equal to the greater of: (1) the product of 0.925 and the per share price of the Additional Stock, and (2) $3.036.

(3) (x) If this Corporation shall issue, at any time on or after January 1, 2002, any Additional Stock for a consideration per share (a) less than the Conversion Price for such shares of Series F Preferred Stock in effect immediately prior to the issuance of such Additional Stock, and (b) in an amount equal to or greater than $3.036 per share (as adjusted to reflect stock dividends, stock splits or recapitalizations), the new Conversion Price for such shares of Series F Preferred Stock in effect immediately prior to such issuance shall be adjusted to a price equal to the price paid per share for such Additional Stock.

(y) If this Corporation shall issue, any time on or after January 1, 2002, any Additional Stock without consideration or for a consideration less than $3.036 per share (as adjusted to reflect stock dividends, stock splits or recapitalizations) at a time when the applicable Conversion Price for the shares of Series F Preferred Stock is greater than $3.036 per share (as adjusted to reflect stock dividends, stock splits or recapitalizations), the new Conversion Price for such shares of

Series F Preferred Stock in effect immediately prior to such issuance shall first be adjusted to a price of $3.036 (as adjusted to reflect stock dividends, stock splits or recapitalizations), and then this new Conversion Price of $3.036 (as adjusted to reflect stock dividends, stock splits or recapitalizations) shall be further adjusted by multiplying $3.036 (as adjusted to reflect stock dividends, stock splits or recapitalizations) by a fraction:

(i) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of shares of Common Stock equivalents which the aggregate consideration received by this Corporation for the shares of such Additional Stock so issued would purchase at $3.036 per share (as adjusted to reflect stock dividends, stock splits or

recapitalizations); and

(ii) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of such shares of Additional Stock so issued.

(z) If this Corporation shall issue, any time on or after January 1, 2002, any Additional Stock without consideration or for a consideration less than $3.036 per share (as adjusted to reflect stock dividends, stock splits or recapitalizations) and less than the then-applicable Conversion Price for the shares of Series F Preferred Stock, at a time when the applicable Conversion Price for the shares of Series F Preferred Stock is equal to or less than $3.036 per share (as adjusted to reflect stock dividends, stock splits or recapitalizations), the new Conversion Price for the shares of Series F Preferred Stock shall be determined by multiplying the Conversion Price for the Series F Preferred Stock in effect immediately prior to the issuance of such Additional Stock by a fraction:

(i) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of shares of Common Stock equivalents which the aggregate consideration received by this Corporation for the shares of such Additional Stock so issued would purchase at the Conversion Price in effect at the time for the shares of Series F Preferred Stock; and

(ii) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of such shares of Additional Stock so issued.

Any series of issuances of Additional Stock consisting of Common Stock or the same series of Preferred Stock, issued at the same price and within a six-month period, shall be treated as one issuance of Additional Stock for the purposes of this calculation.

(B) Except for the adjustments required by Section (c)(i)(A)(2) and Section (c)(i)(A)(3)(x), no adjustment of the Conversion Price for such series of Preferred Stock shall be made in an amount less than one cent per share, provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to three years from the date of the event giving rise to the adjustment being carried forward, or shall be made at the end of three years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in subsections 5(c)(i)(E)(3) and (c)(i)(E)(4), no adjustment of such Conversion Price for such series of Preferred Stock pursuant to this subsection 5(c)(i) shall have the effect of increasing the Conversion Price for such series of Preferred Stock above the Conversion Price for such series in effect immediately prior to such adjustment.

(C) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by this Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of the Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board of Directors irrespective of any accounting treatment.

(E) In the case of the issuance of options to

purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities (which are not excluded from the definition of Additional Stock), the following provisions shall apply:

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections 5(c)(i)(C) and (c)(i)(D)), if any, received by the Corporation upon the issuance of

such options or rights plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby.

(2) The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by this Corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by this Corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subsections 5(c)(i)(C) and (c)(i)(D)).

(3) In the event of any change in the number of shares of Common Stock deliverable or any increase in the consideration payable to this Corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Conversion Price of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock, as the case may be, obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities, and any subsequent adjustments based thereon shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities; provided, however, that this section shall not have any effect on any conversion of such series of Preferred Stock prior to such change or increase.

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock, as the case may be, obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities or options or rights related to such securities, and any subsequent adjustments based thereon, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities; provided, however, that this section shall not have any effect on any conversion of such series of Preferred Stock prior to such expiration or termination.

(ii) "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection 5(c)(i)(E)) by this Corporation after June 22, 1998, other than:

(A) Common Stock issued pursuant to a transaction described in subsection 5(c)(iii) hereof; or

(B) 8,154,860 shares of Common Stock, net of repurchases and the cancellation or expiration of options, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors commencing as of May 1994, and such other number of shares of Common Stock as may be fixed from time to time by the Board of Directors and approved by a majority of then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E

Preferred Stock and Series F Preferred Stock, voting as a single class, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors; or

(C) Common Stock issued or issuable upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock; or

(D) Common Stock issued or issuable in connection with a bona fide business acquisition of or by the Corporation, whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise upon terms approved by the Board of Directors (including such shares of Common Stock issued or issuable prior to the date hereof); or

(E) Common Stock issued or issuable in connection with services rendered or to be rendered to the Corporation by consultants upon terms approved by the Board of Directors (including such shares of Common Stock issued or issuable prior to the date hereof); or

(F) Common Stock issued or issuable in connection with credit agreements with equipment lessors or commercial lenders upon terms approved by the Board of Directors (including such shares of Common Stock issued or issuable prior to the date hereof); or

(G) any right, option or warrant to acquire any security convertible into the securities excluded from the definition of Additional Stock pursuant to subsections (A) through (F) above (including any such right, option or warrant issued or issuable prior to the date hereof).

(iii) In the event this Corporation should at any time or from time to time after the effective date hereof fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as

"Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Conversion Price for the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock, as the case may be, shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase of outstanding shares determined in accordance with subsection 5(c)(i)(E).

(iv) If the number of shares of Common Stock outstanding at any time after the effective date hereof is decreased by a combination of the outstanding shares of Common Stock, then, following the record date of such combination, the Conversion Price for the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock, as the case may be, shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in outstanding shares.

(d) OTHER DISTRIBUTIONS. In the event this Corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by this Corporation or other persons, assets (excluding cash dividends) or options or rights not referred to in subsection 5(c)(iii), then, in each such case for the purpose of this subsection 5(d), the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of this Corporation into which their shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock, as the case may be, are convertible as of the record date fixed for the determination of the holders of Common Stock of this Corporation entitled to receive such distribution.

(e) RECAPITALIZATIONS. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination or merger or sale of assets transaction provided for

elsewhere in this Section 5 or Section 6) provision shall be made so that the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, shall thereafter be entitled to receive upon conversion of such series of Preferred Stock the number of shares of stock or other securities or property of this Corporation or otherwise, to which a holder of Common Stock deliverable upon conversion would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 5 with respect to the rights of the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, after the recapitalization to the end that the provisions of this Section 5 (including adjustment of the Conversion Price then in effect and the number of shares purchasable upon conversion of such series of Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(f) NO IMPAIRMENT. This Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, revitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by this Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock against impairment.

(g) FRACTIONAL SHARES AND CERTIFICATE AS TO ADJUSTMENTS.

(i) No fractional shares shall be issued upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock, and the number of shares of Common Stock to be issued shall be rounded to the nearest whole share. Whether or not fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of such series of Preferred Stock the holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(ii) Upon the occurrence of each adjustment or, readjustment of the Conversion Price of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock, as the case may be, pursuant to this Section 5, this Corporation, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, or instrument convertible into shares of any such series of Preferred Stock, as the case may be, a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. This Corporation shall, upon the written request furnish or cause to be furnished to such holder a like certificate setting forth (A) such adjustment and readjustment, (B) the Conversion Price at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of a share of such series of Preferred Stock.

(h) NOTICES OF RECORD DATE. In the event of any taking by this Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, this Corporation shall mail to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock at least 20 days prior to the date specified therein, a notice specifying the date on which by such record is to be taken for the purpose of such dividend, distribution or right and the amount and character of such dividend, distribution or right.

(i) RESERVATION OF COMMON STOCK ISSUABLE UPON CONVERSION. This Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E

Preferred Stock and Series F Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all authorized shares of such series of Preferred Stock, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then authorized shares of such series of Preferred Stock, in addition to such other remedies as shall be available to the holders of such series of Preferred Stock, this Corporation will take such corporate action as may, in the opinion of its counsel be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(j) NOTICES. Any notice required by the provisions of this Section 5 to be given to the holders of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock shall be deemed given if deposited in the United States postage prepaid, and addressed to each holder of record at such holder's address appearing on the books of this Corporation.

6. MERGER; CONSOLIDATION.

(a) If at any time after the effective date hereof there is a merger, consolidation or other corporate reorganization in which stockholders of this Corporation immediately prior to such transaction own less than 50% of the voting securities of the surviving or controlling entity immediately after the transaction, or sale of all or substantially all of the assets of this Corporation (hereinafter, an "Acquisition"), then, as a part of such Acquisition, provision shall be made so that the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock shall be entitled to receive, prior to any distribution to holders of Common Stock or other junior equity security of the Corporation, the number of shares of stock or other securities or property to be issued to this Corporation or its stockholders resulting from such Acquisition in an amount per share equal to the Original Series A Issue Price, Original Series B Issue Price, Original Series C Issue Price, Original Series D Issue Price, Original Series E Issue Price and Original Series F Issue Price, as applicable, plus a further amount equal to any dividends declared but unpaid on such shares. Subject to the following sentence, the holders of Common Stock shall thereafter be entitled to receive, pro rata, the remainder of the number of shares of stock or other securities or property to be issued to this Corporation or its stockholders resulting from such Acquisition. Notwithstanding anything to the contrary in this Section 6, in the event the aggregate value of stock, securities and other property to be distributed to this Corporation or its stockholders with respect to an Acquisition is less than $5.25 per share (such dollar amount to be appropriately adjusted to reflect any subsequent stock splits, stock dividends or other recapitalizations) of Common Stock outstanding (for purpose of this calculation only, including in the number of shares of Common Stock outstanding the number of shares of Common Stock then issuable upon conversion of all outstanding Preferred Stock), then the stock, securities or other property shall be distributed among the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock, Series E

Preferred Stock, Series F Preferred Stock and the Common Stock according to the provisions of Section 3 hereof as if such Acquisition were deemed a liquidation.

(b) Any securities to be delivered to the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Common Stock pursuant to subsection 6(a) above shall be valued as follows:

(i) Securities not subject to investment letter or other similar restrictions on free marketability;

(A) If traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the 30-day period ending three days prior to the closing;

(B) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever are applicable) over the 30-day period ending three days prior to the closing; and

(C) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by the Corporation and the holders of not less than a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in subsections 6(b)(i)(A), (B) or (C) to reflect the approximate fair market value thereof, as mutually determined by this Corporation and the holders of a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, voting as a single class.

(c) In the event the requirements of subsection 6(a) are not complied with, this Corporation shall forthwith either:

(i) cause such closing to be postponed until such time as the requirements of this Section 6 have been complied with, or

(ii) cancel such transaction, in which event the rights, preferences and privileges of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock shall revert to and be the same as such rights, preferences and privileges existing immediately prior to the date of the first notice referred to in subsection 6(d) hereof.

(d) This Corporation shall give each holder of record of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock written notice of such impending transaction

not later than 20 days prior to the stockholders' meeting called to approve such action, or 20 days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the impending transaction and the provisions of this Section 6, and this Corporation shall thereafter give such holders prompt notice of any material changes. The transaction shall in no event take place earlier than 20 days after the Corporation has given the first notice provided for herein or earlier than 10 days after the Corporation has given notice of any material changes provided for herein; provided, however, that such periods may be shortened upon the written consent of the holders of a majority of the then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock voting as a class.

(e) The provisions of this Section 6 are in addition to the protective provisions of Section 8 hereof.

7. VOTING RIGHTS; DIRECTORS.

(a) The holder of each outstanding share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock shall have the right to one vote for each share of Common Stock into which such outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock could be converted on the record date for the vote or written consent of stockholders. In all cases any fractional share, determined on an aggregate conversion basis, shall be rounded to the nearest whole share. With respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled, notwithstanding any provision hereof to notice of any stockholders' meeting in accordance with the bylaws of this Corporation, and shall be entitled to vote, together with holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote.

(b) Notwithstanding subsection 7(a), (i) so long as at least fifty percent (50%) of the shares of Series A Preferred Stock and Series B Preferred Stock originally issued remain issued and outstanding, the holders of Series A Preferred Stock and Series B Preferred Stock, voting together as a separate class, shall be entitled to elect one member of the Board of Directors, (ii) so long as at least fifty percent (50%) of the shares of Series C Preferred Stock originally issued remain issued and outstanding, the holders of Series C Preferred Stock, voting as a separate class, shall be entitled to elect one member of the Board of Directors, (iii) so long as at least fifty percent (50%) of the shares of Series D Preferred Stock originally issued remain issued and outstanding, the holders of Series D Preferred Stock, voting as a separate class, shall be entitled to elect one member of the Board of Directors and (iv) so long as at least fifty percent (50%) of the shares of Series E Preferred Stock and Series F Preferred Stock originally issued remain issued and outstanding, the holders of Series E Preferred Stock and Series F Preferred Stock, voting together as a separate class, shall be entitled to elect one member of the Board of Directors. Any

additional directors shall be elected by the holders of Preferred Stock and Common Stock, voting together as a single class.

A vacancy in any directorship elected by the holders of Series A Preferred Stock and Series B Preferred Stock shall be filled only by vote of the holders of Series A Preferred Stock and Series B Preferred Stock, voting together as a separate class; a vacancy in any directorship elected by the holders of Series C Preferred Stock shall be filled only by vote of the holders of Series C Preferred Stock; a vacancy in any directorship elected by the holders of Series D Preferred Stock shall be filled only by a vote of the holders of Series D Preferred Stock; and a vacancy in any directorship elected by the holders of Series E Preferred Stock and Series F Preferred Stock shall be filled only by a vote of the holders of Series E Preferred Stock and Series F Preferred Stock, voting together as a single class. Any vacancy in any other directorship shall be elected by the holders of Preferred Stock and Common Stock, voting together as one class.

This subsection 7(b) shall be void and of no further effect thereafter upon the occurrence of either of the following events:

(i) the closing of a Qualifying Public Offering;

(ii) upon the distribution to the stockholders pursuant to a liquidation as described in Section 3 hereof or an Acquisition as described in Section 6 hereof.

8. PROTECTIVE PROVISIONS.

(a) In addition to any approvals required by law, so long as shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock (voting, as one class, in accordance with Section 7):

(i) sell, convey, or otherwise dispose of all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) in which this Corporation is not the surviving corporation or effect any transaction or series of related transactions in which more than fifty percent (50%) of the voting power of this Corporation is disposed of, provided, however, that this restriction shall not apply to any mortgage, deed of trust, pledge or other encumbrance or hypothecation of the Corporation's or any of its subsidiaries' assets for the purpose of securing any contract or obligation; or

(ii) alter or change the rights, preferences, privileges or restrictions of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock; or

(iii) increase the authorized number of shares of Common Stock or Preferred Stock; or

(iv) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation or an Acquisition; or

(v) pay or declare any dividend or make any distribution (including without limitation by way of redemption, purchase or acquisition) on or with respect to its Common Stock or any other junior equity security other than a dividend in Common Stock of this Corporation; provided, however, that the foregoing shall not prevent this Corporation from (A) repurchasing at cost shares of its Common Stock issued to or held by employees, officers, directors or other persons performing services to this Corporation or its subsidiaries pursuant to agreements providing for such rights of repurchase upon the termination of such services to this Corporation or its subsidiaries, or (B) repurchasing shares of its Common Stock pursuant to any right of first refusal contained in this Corporation's bylaws as of the date hereof; or

(vi) change the authorized number of directors; or

(vii) do any act or thing which would result in taxation of the holders of shares of Preferred Stock under section 305(b) of the Internal Revenue Code of 1986, as amended (or any comparable provision of the Internal Revenue Code as hereafter from time to time amended).

(b) In addition to any approvals required by law, so long as shares of Series C Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of Series C Preferred Stock, voting as a single class:

(i) alter or change the rights, preferences, privileges or restrictions of the shares of Series C Preferred Stock; or

(ii) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series C Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation or an Acquisition.

(c) In addition to any approvals required by law, so long as shares of Series D Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of Series D Preferred Stock, voting as a single class:

(i) sell, convey, or otherwise dispose of all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) in which this Corporation is not the surviving corporation or effect any transaction or series of related transactions in which more than fifty percent (50%) of the voting power of this Corporation is disposed of, provided, however, that this restriction shall not apply to any mortgage, deed of trust, pledge or other encumbrance or hypothecation of

the Corporation's or any of its subsidiaries' assets for the purpose of securing any contract or obligation; or

(ii) alter or change the rights, preferences, privileges or restrictions of the shares of Series D Preferred Stock; or

(iii) increase the authorized number of shares of Series D Preferred Stock; or

(iv) increase the authorized number of directors; or

(v) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series D Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation or an Acquisition.

(d) In addition to any approvals required by law, so long as shares of Series E Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least sixty-six percent (66%) of the then outstanding voting power of Series E Preferred Stock, voting as a single class:

(i) materially or adversely alter or change the rights, preferences or privileges of the shares of Series E Preferred Stock as a separate series in a manner that is dissimilar and disproportionate relative to the manner in which the rights, preferences or privileges of the other series of Preferred Stock are altered, or

(ii) increase the authorized number of shares of Series E Preferred Stock.

(e) In addition to any approvals required by law, so long as shares of Series F Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the then outstanding voting power of Series F Preferred Stock, voting as a single class:

(i) materially or adversely alter or change the rights, preferences or privileges of the shares of Series F Preferred Stock as a separate series in a manner that is dissimilar and disproportionate relative to the manner in which the rights, preferences or privileges of the other series of Preferred Stock are altered, or

(ii) create (by reclassification or otherwise) any new class or series of stock having a preference over the Series F Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation or an Acquisition;

(iii) amend Section B. 5(a)(ii)(B)of Article IV hereof; or

(iv) increase the authorized number of shares of Series F Preferred Stock.

9. STATUS OF REDEEMED OR CONVERTED STOCK. In the event any shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock shall be redeemed or converted pursuant to Section 4 or 5 hereof the shares so redeemed or converted shall be cancelled and shall not be issuable by this Corporation, and the Certificate of Incorporation of this Corporation shall be appropriately amended to effect the corresponding reduction in this Corporation's authorized capital stock.

10. REPURCHASE OF SHARES. In connection with this Corporation's repurchase at cost of shares of its Common Stock issued to or held by employees, officers, directors or other persons performing services to this Corporation or its subsidiaries pursuant to agreements providing for such rights of repurchase upon the termination of such services to this Corporation or its subsidiaries, or its repurchase of shares of its Common Stock pursuant to any rights of first refusal contained in this Corporation's bylaws as of the date hereof, each holder of Preferred Stock shall be deemed to have waived the application, in whole or in part, of any provisions of the Delaware General Corporation Law or any applicable law of any other state which might limit or prevent or prohibit such repurchases.

C. COMMON STOCK.

1. RELATIVE RIGHTS OF PREFERRED STOCK AND COMMON STOCK. All rights preferences, voting powers, relative, participating optional or other special rights and privileges, and qualifications, limitations, or restrictions of the Common Stock are expressly made subject and subordinate to those that may be fixed with respect to any shares of the Preferred Stock.

2. VOTING RIGHTS. Except as otherwise required by law or this Certificate of Incorporation, each holder of Common Stock shall have one vote in respect of each share of stock held by such holder of record on the books of the Corporation for the election of directors and on all matters submitted to a vote of stockholders of the Corporation.

3. DIVIDENDS. Subject to the preferential rights of the Preferred Stock, the holders of shares of Common Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of the assets of the Corporation which are by law available therefor, dividends payable either in cash, in property or in shares of capital stock.

4. DISSOLUTION, LIQUIDATION OR WINDING UP. In the event of any dissolution, liquidation or winding up of the affairs of the Corporation, after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of the Preferred Stock, holders of Common Stock shall be entitled to participate in any distribution of the assets of the Corporation in accordance with Section 3 of Article IV, Division B hereof.

5. NO PREEMPTIVE RIGHTS. The holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Common Stock shall not have any preemptive rights. The

foregoing shall not, however, prohibit the Corporation from granting contractual rights of first refusal to purchase securities to holders of Preferred Stock.

ARTICLE V

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware:

A. The Board of Directors of the Corporation is expressly authorized to adopt, amend or repeal the bylaws of the Corporation; provided, however, that the bylaws may only be amended in accordance with the provisions thereof and, provided further that, the authorized number of directors may be changed only with the approval of the holders of at least a majority of the then

outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock (voting as one class) in accordance with Section 7 of Article IV. Division B hereof.

B. Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

C. The books of the Corporation may be kept at such place within or without the State of Delaware as the bylaws of the Corporation may provide or as may be designated from time to time by the Board of Directors of the Corporation.

ARTICLE VI

A. EXCULPATION.

1. CALIFORNIA. The liability of each and every director of this Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

2. DELAWARE. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is hereafter amended to further reduce or to authorize, with the approval of the Corporation's stockholders, further reductions in the liability of the Corporation's directors for breach of fiduciary duty, then a director of the Corporation shall not be liable for any such breach to the fullest extent permitted by the Delaware General Corporation Law as so amended.

3. CONSISTENCY. In the event of any inconsistency between Sections 1 and 2 of this Division A, the controlling Section, as to any particular issue with regard to any particular matter, shall be the one which provides to the director in question the greatest protection from liability.

B. INDEMNIFICATION.

1. CALIFORNIA. This Corporation is authorized to indemnify the directors and officers of this Corporation to the fullest extent permissible under California law. Moreover, this Corporation is authorized to provide indemnification of (and advancement of expenses to) agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 317 of the California Corporations Code, subject only to applicable limits set forth in Section 204 of the California Corporations Code, with respect to actions for breach of duty to the Corporation and its stockholders.

2. DELAWARE. To the extent permitted by applicable law, this Corporation is also authorized to provide indemnification of (and advancement of expenses to) such agents (and any other persons to which Delaware law permits this Corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the Delaware General Corporation Law, subject only to limits created by applicable Delaware law (statutory or non-statutory), with respect to actions for breach of duty to the Corporation, its stockholders and others.

3. CONSISTENCY. In the event of any inconsistency between Sections 1 and 2 of this Division B, the controlling Section, as to any particular issue with regard to any particular matter, shall be the one which authorizes for the benefit of the agent or other person in question the provision of the fullest, promptest, most certain or otherwise most favorable indemnification and/or advancement.

C. EFFECT OF REPEAL OR MODIFICATION. Any repeal or modification of any of the foregoing provisions of this Article VI shall not adversely affect any right or protection of a director, officer, agent or other person existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director occurring prior to, such repeal or modification.

ARTICLE VII

The Corporation shall have perpetual existence.

ARTICLE VIII

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

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IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been executed as of this 22nd day of August, 2001.

DIGIRAD CORPORATION

By: /s/ Scott Huennekens

Scott Huennekens, President

[SIGNATURE PAGE TO
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION]

EXHIBIT 3.3

BYLAWS

OF

DIGIRAD CORPORATION

ARTICLE I. - OFFICES

Section 1. REGISTERED OFFICE. The registered office shall be in the City of Dover, County of Kent, State of Delaware.

Section 2. OTHER OFFICES. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II. - MEETINGS OF STOCKHOLDERS

Section 1. ANNUAL MEETINGS. The annual meeting of the stockholders of the Corporation for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting shall be held between 30 and 120 days following the end of the fiscal year of the Corporation and at such place as may be determined by the Board of Directors. If the annual meeting of the stockholders be not held as herein prescribed, the election of directors may be held at any meeting thereafter called pursuant to these Bylaws.

Section 2. SPECIAL MEETINGS. Special meetings of the stockholders, for any purpose whatsoever, unless otherwise prescribed by statute, may be called at any time by the Chairman of the Board, the President, or by the Board of Directors, or by one or more stockholders holding not less than ten percent (10%) of the voting power of the Corporation.

Section 3. PLACE. All meetings of the stockholders shall be at any place within or without the State of Delaware designated either by the Board of Directors or by written consent of the holders of a majority of the shares entitled to vote thereat, given either before or after the meeting. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the Corporation.

Section 4. NOTICE. Notice of meetings of the stockholders of the Corporation shall be given in writing to each stockholder entitled to vote, either personally or by first-class mail or other means of written communication, charges prepaid, addressed to the stockholder at his address appearing on the books of the Corporation or given by the stockholder to the Corporation for the purpose of notice. Notice of any such meeting of stockholders shall be sent to each stockholder entitled thereto not less than ten (10) nor more than sixty (60) days before the meeting. Said notice shall state the place, date and hour of the meeting and, (i) in the case of special meetings, the general nature of the business to be transacted, and no other business may be transacted, or (ii) in the case of annual meetings, those matters which the Board of Directors, at the time of the mailing of the notice, intends to present for action by the stockholders and (iii) in the case of any meeting at which directors are to be elected, the names of the nominees intended at the time of the mailing of the notice to be presented by management for election.

Section 5. ADJOURNED MEETINGS. Any stockholders' meeting may be adjourned from time to time by the vote of the holders of a majority of the voting shares present at the meeting either in person or by proxy. Notice of any adjourned meeting need not be given unless a meeting is adjourned for thirty (30) days or more from the date set for the original meeting.

Section 6. QUORUM. The presence in person or by proxy of the persons entitled to vote a majority of the shares entitled to vote at any meeting constitutes a quorum for the transaction of

business. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

In the absence of a quorum, any meeting of stockholders may be adjourned from time to time by the vote of a majority of the shares, the holders of which are either present in person or represented by proxy thereat, but no other business may be transacted, except as provided above.

Section 7. CONSENT TO STOCKHOLDER ACTION. Any action which may be taken at any meeting of stockholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted; provided, however, that (i) notice of any stockholder approval without a meeting by less than unanimous written consent shall be given as required by the General Corporation Law of Delaware, and (ii) directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors.

Any written consent may be revoked by a writing received by the Secretary of the Corporation prior to the time that written consents of the number of shares required to authorize the proposed action have been filed with the Secretary.

Section 8. WAIVER OF NOTICE. The transactions of any meeting of stockholders, however called and noticed, and whenever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by

proxy, signs a written waiver of notice, or a consent to the holding of the meeting, or an approval of the minutes thereof. All such waivers, consents, or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 9. VOTING. The voting at all meetings of stockholders need not be by ballot, but any qualified stockholder before the voting begins may demand a stock vote whereupon such stock vote shall be taken by ballot, each of which shall state the name of the stockholder voting and the number of shares voted by such stockholder, and if such ballot be cast by a proxy, it shall also state the name of any such proxy.

At any meeting of the stockholders, every stockholder having the right to vote shall be entitled to vote in person, or by proxy appointed in a writing subscribed by such stockholder and bearing a date not more than three years prior to said meeting, unless the writing states that it is irrevocable and satisfies Section 212(e) of the General Corporation Law of Delaware, in which event it is irrevocable for the period specified in said writing and said Section 212(e).

Section 10. RECORD DATES. In the event the Board of Directors fixes a day for the determination of stockholders of record entitled to vote as provided in Section 1 of Article V of these Bylaws, then, subject to the provisions of the General Corporation Law of Delaware only persons in whose name shares entitled to vote stand on the stock records of the Corporation at the close of business on such day shall be entitled to vote.

If no record date is fixed:

The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held;

The record date for determining stockholders entitled to give consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is given; and

The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

A determination of stockholders of record entitled to notice of or to

vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting, but the Board of Directors shall fix a new record date if the meeting is adjourned for more than thirty (30) days.

Section 11. CUMULATIVE VOTING FOR ELECTION OF DIRECTORS. Provided the candidate's name has been placed in nomination prior to the voting and one or more stockholders has given notice at the meeting prior to the voting of the stockholder's intent to cumulate the stockholder's votes, every stockholder entitled to vote at any election for directors shall have the right to cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the stockholder's shares are normally entitled, or distribute the stockholder's votes on the same principle among as many candidates as the stockholder shall think fit. The candidates receiving the highest number of votes of the shares entitled to be voted for them up to the number of directors to be elected by such shares are elected.

ARTICLE III. - BOARD OF DIRECTORS

Section 1. POWERS. Subject to any limitations in the Certificate of Incorporation or these Bylaws and to any provision of the General Corporation Law of Delaware requiring stockholder

authorization or approval for a particular action, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by, or under the direction of, the Board of Directors. The Board of Directors may delegate the management of the day-to-day operation of the business of the Corporation to a management company or other person provided that the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised, under the ultimate direction of the Board of Directors.

Section 2. NUMBER, TENURE AND QUALIFICATIONS. The authorized number of directors of the Corporation shall be not less than five (5) nor more than nine (9), the exact number of directors to be fixed from time to time within such limit by a duly adopted resolution of the Board of Directors or stockholders. The exact number of directors presently authorized shall be six (6) until changed within the limits specified above by a duly adopted resolution of the Board of Directors or stockholders.

Directors shall hold office until the next annual meeting of stockholders and until their respective successors are elected. If any such annual meeting is not held, or the directors are not elected thereat, the directors may be elected at any special meeting of stockholders held for that purpose. Directors need not be stockholders.

Section 3. REGULAR MEETINGS. A regular annual meeting of the Board of Directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of stockholders. The Board of Directors may provide for other regular meetings from time to time by resolution.

Section 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called at any time by the Chairman of the Board, or the President, or any Vice President, or the Secretary or any two (2) directors. Written notice of the time and place of all special meetings of

the Board of Directors shall be delivered personally or by telephone, facsimile or telegraph to each director at least forty-eight (48) hours before the meeting, or sent to each director by first-class mail, postage prepaid, at least four (4) days before the meeting. Such notice need not specify the purpose of the meeting. Notice of any meeting of the Board of Directors need not be given to any director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting prior thereto, or at its commencement, the lack of notice to such Director.

Section 5. PLACE OF MEETINGS. Meetings of the Board of Directors may be held at any place within or without the State of Delaware, which has been designated in the notice, or if not stated in the notice or there is no notice, the principal executive office of the Corporation or as designated by the resolution duly adopted by the Board of Directors.

Section 6. PARTICIPATION BY TELEPHONE. Members of the Board of Directors may participate in a meeting through use of conference telephone or

similar communications equipment, so long as all members participating in such meeting can hear one another.

Section 7. QUORUM. A majority of the directors shall constitute a quorum. In the absence of a quorum, a majority of the directors present may adjourn any meeting to another time and place. If a meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time or place shall be given prior to the time of the reconvened meeting to the directors who were not present at the time of adjournment.

Section 8. ACTION AT MEETING. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present is the act of the Board of Directors. A meeting at which a quorum is initially present may continue to transact business

notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 9. WAIVER OF NOTICE. The transactions of any meeting of the Board of Directors, however called and noticed or wherever held, are as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 10. ACTION WITHOUT MEETING. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the Board individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such directors.

Section 11. REMOVAL. The Board of Directors may declare vacant the office of a director who has been declared of unsound mind by an order of court or who has been convicted of a felony. Subject to Article IV, Division B, Section 7(b) of the Corporation's Certificate of Incorporation, the entire Board of Directors or any individual director may be removed from office without cause by a vote of stockholders holding a majority of the outstanding shares entitled to vote at an election of directors; provided, however, that unless the entire Board is removed, no individual director may be removed when the votes cast against removal, or not consenting in writing to such removal, would be sufficient to elect such director if voted cumulatively at an election at which the same total number of votes cast were cast (or, if such

action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of the director's most recent election were then being elected.

Subject to Article IV, Division B, Section 7(b) of the Corporation's Certificate of Incorporation, in the event an office of a director is so declared vacant or in case the Board or any one or more directors be so removed, new directors may be elected at the same meeting.

Section 12. RESIGNATIONS. Any director may resign effective upon giving written notice to the Chairman of the Board, the President, the Secretary or the Board of Directors of the Corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Section 13. VACANCIES. Except for a vacancy created by the removal of a director, subject to Article IV, Division B, Section 7(b) of the Corporation's Certificate of Incorporation, all vacancies in the Board of Directors, whether caused by resignation, death or otherwise, may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until his successor is elected at an annual, regular or special meeting of the stockholders. Vacancies created by the removal of a director may be filled only by approval of the stockholders. Subject to Article IV, Division B, Section 7(b) of the Corporation's Certificate of Incorporation, the stockholders may elect a director at any time to fill any vacancy not filled by the directors. Any such election by written consent requires the consent of all of the outstanding shares entitled to vote.

Section 14. COMPENSATION. No stated salary shall be paid directors, as

such, for their services, but, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of such Board; provided

that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 15. COMMITTEES. The Board of Directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two (2) or more directors, to serve at the pleasure of the Board of Directors. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have all the authority of the Board of Directors in the management of the business and affairs of the Corporation, except with respect to (i) the approval of any action requiring stockholders' approval or approval of the outstanding shares, (ii) the filling of vacancies on the Board or any committee, (iii) the fixing of compensation of directors for serving on the Board or a committee, (iv) the adoption, amendment or repeal of bylaws, (v) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable, (vi) a distribution to stockholders, except at a rate or in a periodic amount or within a price range determined by the Board and (vii) the appointment of other committees of the Board or the members thereof.

ARTICLE IV. - OFFICERS

Section 1. NUMBER AND TERM. The officers of the Corporation shall be a President, a Secretary and a Chief Financial Officer, all of which shall be chosen by the Board of Directors. In addition, the Board of Directors may appoint a Chairman of the Board, one or more Vice

Presidents and such other officers as may be deemed expedient for the proper conduct of the business of the Corporation, each of whom shall have such authority and perform such duties as the Board of Directors may from time to time determine. The officers to be appointed by the Board of Directors shall be chosen annually at the regular meeting of the Board of Directors held after the annual meeting of stockholders and shall serve at the pleasure of the Board of Directors. If officers are not chosen at such meeting of the Board of Directors, they shall be chosen as soon thereafter as shall be convenient. Each officer shall hold office until his successor shall have been duly chosen or until his removal or resignation.

Section 2. INABILITY TO ACT. In the case of absence or inability to act of any officer of the Corporation and of any person herein authorized to act in his place, the Board of Directors may from time to time delegate the powers or duties of such officer to any other officer or any director or other person whom it may select.

Section 3. REMOVAL AND RESIGNATION. Any officer chosen by the Board of Directors may be removed at any time, with or without cause, by the affirmative vote of a majority of all the members of the Board of Directors.

Any officer chosen by the Board of Directors may resign at any time by giving written notice of said resignation to the Corporation. Unless a different time is specified therein, such resignation shall be effective upon its receipt by the Chairman of the Board, the President, the Secretary or the Board of Directors.

Section 4. VACANCIES. A vacancy in any office because of any cause may be filled by the Board of Directors for the unexpired portion of the term.

Section 5. CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the Board.

Section 6. PRESIDENT. The President shall be the general manager and chief executive officer of the Corporation, subject to the control of the

Board of Directors, and as such shall preside at all meetings of stockholders, shall have general supervision of the affairs of the Corporation, shall sign or countersign or authorize another officer to sign all certificates, contracts, and other instruments of the Corporation as authorized by the Board of Directors, shall make reports to the Board of Directors and stockholders, and shall perform all such other duties as are incident to such office or are properly required by the Board of Directors.

Section 7. VICE PRESIDENT. In the absence of the President, or in the event of such officer's death, disability or refusal to act, the Vice President, or in the event there be more than one Vice President, the Vice Presidents in the order designated at the time of their selection, or in the absence of any such designation, then in the order of their selection, shall perform the duties of President, and when so acting, shall have all the powers and be subject to all restrictions upon the President. Each Vice President shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board of Directors.

Section 8. SECRETARY. The Secretary shall see that notices for all meetings are given in accordance with the provisions of these Bylaws and as required by law, shall keep minutes of all meetings, shall have charge of the seal and the corporate books, and shall make such reports and perform such other duties as are incident to such office, or as are properly required by the President or by the Board of Directors.

The Assistant Secretary or the Assistant Secretaries, in the order of their seniority, shall, in the absence or disability of the Secretary, or in the event of such officer's refusal to act, perform the duties and exercise the powers and discharge such duties as may be assigned from time to time by the President or by the Board of Directors.

Section 9. CHIEF FINANCIAL OFFICER. The Chief Financial Officer may also be designated by the alternate title of "Treasurer." The Chief Financial Officer shall have custody of all moneys and securities of the Corporation and shall keep regular books of account. Such officer shall disburse the funds of the Corporation in payment of the just demands against the Corporation, or as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Board of Directors from time to time as may be required of such officer, an account of all transactions as Chief Financial Officer and of the financial condition of the Corporation. Such officer shall perform all duties incident to such office or which are properly required by the President or by the Board of Directors.

The Assistant Chief Financial Officer or the Assistant Chief Financial Officers, in the order of their seniority, shall, in the absence or disability of the Chief Financial Officer, or in the event of such officer's refusal to act, perform the duties and exercise the powers of the Chief Financial Officer, and shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board of Directors.

Section 10. SALARIES. The salaries of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary by reason of the fact that such officer is also a director of the Corporation.

Section 11. OFFICERS HOLDING MORE THAN ONE OFFICE. Any two or more offices may be held by the same person.

ARTICLE V. - MISCELLANEOUS

Section 1. RECORD DATE AND CLOSING OF STOCK BOOKS. The Board of Directors may fix a time in the future as a record date for the determination of the stockholders entitled to notice of and to vote at any meeting of stockholders or entitled to receive payment of any dividend or

distribution, or any allotment of rights, or to exercise rights in respect to any other lawful action. The record date so fixed shall not be more than sixty (60) nor less than ten (10) days prior to the date of the meeting or event for the purposes of which it is fixed. When a record date is so fixed, only stockholders of record at the close of business on that date are entitled to notice of and to vote at the meeting or to receive the dividend, distribution, or allotment of rights, or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date.

The Board of Directors may close the books of the Corporation against transfers of shares during the whole or any part of a period of not more than sixty (60) days prior to the date of a stockholders' meeting, the date when the right to any dividend, distribution, or allotment of rights vests, or the effective date of any change, conversion or exchange of shares.

Section 2. CERTIFICATES. Certificates of stock shall be issued in numerical order and each stockholder shall be entitled to a certificate signed in the name of the Corporation by the Chairman of the Board or the President or a Vice President, and the Chief Financial Officer, the Secretary or an Assistant Secretary, certifying to the number of shares owned by such stockholder. Any or all of the signatures on the certificate may be facsimile. Prior to the due presentment for registration of transfer in the stock transfer book of the Corporation, the registered owner shall be treated as the person exclusively entitled to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner, except as expressly provided otherwise by the laws of the State of Delaware.

Section 3. REPRESENTATION OF SHARES IN OTHER CORPORATIONS. Shares of other corporations standing in the name of the Corporation may be voted or represented and all incidents thereto

may be exercised on behalf of the Corporation by the Chairman of the Board, the President or any Vice President and the Chief Financial Officer or the Secretary or an Assistant Secretary.

Section 4. FISCAL YEAR. The fiscal year of the Corporation shall be set by the Board of Directors.

Section 5. ANNUAL REPORTS. The Annual Report to stockholders, described in the General Corporation Law of Delaware, is expressly waived and dispensed with.

Section 6. AMENDMENTS. Bylaws may be adopted, amended, or repealed by the vote or the written consent of stockholders entitled to exercise a majority of the voting power of the Corporation. Subject to the right of stockholders to adopt, amend, or repeal bylaws, bylaws may be adopted, amended, or repealed by the Board of Directors, except that a bylaw amendment thereof changing the authorized number of directors may be adopted by the Board of Directors only if these Bylaws permit an indefinite number of directors and the bylaw or amendment thereof adopted by the Board of Directors changes the authorized number of directors within the limits specified in these Bylaws.

ARTICLE VI. - INDEMNIFICATION

Section 1. DELAWARE. The Corporation shall, to the fullest extent authorized under the laws of the State of Delaware, as those laws may be amended and supplemented from time to time, indemnify any director made, or threatened to be made, a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of being a director of the Corporation or a predecessor corporation or, at the Corporation's request, a director or officer of another corporation, provided, however, that the Corporation shall indemnify any such agent in connection with a proceeding initiated by such agent only if such proceeding was authorized by the Board of Directors of the Corporation. The indemnification provided for in this Section 1 shall: (i) not be deemed exclusive of any other rights to which those indemnified may be entitled

under the Corporation's certificate of incorporation, any bylaw, agreement or vote of stockholders or disinterested directors or otherwise, both as to action in their official capacities and as to action in another capacity while holding such office, (ii) continue as to a person who has ceased to be a director and (iii) inure to the benefit of the heirs, executors and administrators of such a person. The Corporation's obligation to provide indemnification under this Section 1 shall be offset to the extent of any other source of indemnification or any otherwise applicable insurance coverage under a policy maintained by the Corporation or any other person.

Expenses incurred by a director of the Corporation in defending a civil or criminal action, suit or proceeding by reason of the fact that such director is or was a director of the Corporation (or was serving at the Corporation's request as a director or officer of another corporation) shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director to repay such amount if it shall ultimately be determined that such director is not entitled to be indemnified by the Corporation as authorized by

relevant sections of the General Corporation Law of Delaware. Notwithstanding the foregoing, the Corporation shall not be required to advance such expenses to an agent who is a party to an action, suit or proceeding brought by the Corporation and approved by a majority of the Board of Directors of the Corporation which alleges willful misappropriation of corporate assets by such agent, disclosure of confidential information in violation of such agent's fiduciary or contractual obligations to the Corporation or any other willful and deliberate breach in bad faith of such agent's duty to the Corporation or its stockholders.

The foregoing provisions of this Section 1 shall be deemed to be a contract between the Corporation and each director who serves in such capacity at any time while this

bylaw is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

The Board of Directors in its discretion shall have power on behalf of the Corporation to indemnify any person, other than a director, made a party to any action, suit or proceeding by reason of the fact that such person, such person's testator or intestate, is or was an officer or employee of the Corporation.

To assure indemnification under this Section 1 of all directors, officers and employees who are determined by the Corporation or otherwise to be or to have been "fiduciaries" of any employee benefit plan of the Corporation which may exist from time to time, Section 145 of the General Corporation Law of Delaware shall, for the purposes of this Section 1, be interpreted as follows: an "other enterprise" shall be deemed to include such an employee benefit plan, including without limitation, any plan of the Corporation which is governed by the Act of Congress entitled "Employee Retirement Income Security Act of 1974," as amended from time to time; the Corporation shall be deemed to have requested a person to serve an employee benefit plan where the performance by such person of his or her duties to the Corporation also imposes duties on, or otherwise involves services by, such person to the plan or participants or beneficiaries of the plan; excise taxes assessed on a person with respect to an employee benefit plan pursuant to such Act of Congress shall be deemed "fines."

Section 2. CALIFORNIA. The Corporation shall indemnify its directors to the fullest extent not prohibited by the California General Corporation Law; provided, however, that the Corporation shall not be required to indemnify any director in connection with any proceeding

(or part thereof) initiated by such person or any proceeding by such person against the Corporation or its directors, officers, employees or other agents unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the board of directors of the Corporation or (iii) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the California General Corporation Law.

The Corporation shall have power to indemnify its officers, employees and other agents as set forth in the California General Corporation Law.

Promptly after receipt of a request for indemnification hereunder (and in any event within ninety (90) days thereof) a reasonable, good faith determination as to whether indemnification of the director is proper under the circumstances because each director has met the applicable standard of care shall be made by: (i) a majority vote of a quorum consisting of directors who are not parties to such proceeding; (ii) if such quorum is not obtainable, by independent legal counsel in a written opinion; or (iii) approval or ratification by the affirmative vote of a majority of the shares of the Corporation represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) or by written consent of a majority of the outstanding shares entitled to vote; where in each case the shares owned by the person to be indemnified shall not be considered entitled to vote thereon.

For purposes of any determination under this bylaw, a director shall be deemed to have acted in good faith and in a manner he or she reasonably believed to be in the best interests of the Corporation and its stockholders, and, with respect to any criminal action or proceeding, to have had no reasonable cause to

believe that his or her conduct was unlawful, if his or her action is

based on information, opinions, reports and statements, including financial statements and other financial data, in each case prepared or presented by: (i) one or more officers or employees of the Corporation whom the director believed to be reliable and competent in the matters presented; (ii) counsel, independent accountants or other persons as to matters which the director believed to be within such person's professional competence; and (iii) a committee of the Board upon which such director does not serve, as to matters within such committee's designated authority, which committee the director believes to merit confidence; so long as, in each case, the director acts without knowledge that would cause such reliance to be unwarranted.

The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in the best interests of the Corporation and its stockholders or that he or she had reasonable cause to believe that his or her conduct was unlawful.

The provisions of the preceding two paragraphs shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth by the California General Corporation Law.

The Corporation shall advance, prior to the final disposition of any proceeding, promptly following request therefor, all expenses incurred by any director in connection with such proceeding upon receipt of an undertaking by or on behalf of such person to repay said amounts if it shall be determined ultimately that such person is not entitled to be indemnified under this bylaw or otherwise.

Without the necessity of entering into an express contract, all rights to indemnification and advances to directors under this bylaw shall be deemed to be contractual rights and be

effective to the same extent and as if provided for in a contract between the Corporation and the director. Any right to indemnification or advances granted by this bylaw to a director shall be enforceable by or on behalf of the person holding such right in the forum in which the proceeding is or was pending or, if such forum is not available or a determination is made that such forum is not convenient, in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. The claimant in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting his or her claim. The Corporation shall be entitled to raise as a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any proceeding in advance of its final disposition when the required undertaking has been tendered to the Corporation) that the claimant has not met the standards of conduct that make it permissible under the California General Corporation Law for the Corporation to indemnify the claimant for the amount claimed. Neither the failure of the Corporation (including its board of directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because the claimant has met the applicable standard of conduct set forth in the California General Corporation Law, nor an actual determination by the Corporation (including its board of directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

To the fullest extent permitted by the Corporation's Certificate of Incorporation and the California General Corporation Law, the rights conferred on any person by this bylaw shall not

be exclusive of any other right which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, bylaws, agreement, vote of stockholders or disinterested directors or

otherwise, both as to action in his or her official capacity and as to action in another capacity while holding office. The Corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advances, to the fullest extent permitted by the California General Corporation Law and the Corporation's Certificate of Incorporation.

The rights conferred on any person by this bylaw shall continue as to a person who has ceased to be a director and shall inure to the benefit of the heirs, executors and administrators of such a person.

The Corporation, upon approval by the board of directors, may purchase insurance on behalf of any person required or permitted to be indemnified pursuant to this bylaw. The Corporation's obligation to provide indemnification under this Section 2 shall be offset to the extent of any other source of indemnification or any otherwise applicable insurance coverage under a policy maintained by the Corporation or any other person.

Any repeal or modification of this bylaw shall only be prospective and shall not affect the rights under this bylaw in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the Corporation.

The Corporation shall indemnify the directors and officers of the Corporation who serve at the request of the Corporation as trustees, investment managers or other fiduciaries of employee benefit plans to the fullest extent permitted by the California General Corporation Law.

If this bylaw or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director to the fullest extent permitted by any applicable portion of this bylaw that shall not have been invalidated, or by any other applicable law.

For the purposes of this bylaw, the following definitions shall apply:

(i) The term "proceeding" shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement and appeal of any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative.

(ii) The term "expenses" shall be broadly construed and shall include, without limitation, court costs, attorneys' fees, witness fees, fines, amounts paid in settlement or judgment and any other costs and expenses of any nature or kind incurred in connection with any proceeding, including expenses of establishing a right to indemnification under this bylaw or any applicable law.

(iii) The term the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this bylaw with respect to the resulting or surviving corporation

as he or she would have with respect to such constituent corporation if its separate existence had continued.

(iv) References to a "director," "officer," "employee," or "agent" of the Corporation shall include, without limitation, situations where such person is serving at the request of the Corporation as a director, officer, employee, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise.

Section 3. INCONSISTENCY. In the event of any inconsistency between Section 1 and Section 2 of this Article VI, the controlling Section as to any particular issue with regard to any particular matter, shall be the one which authorizes for the benefit of the agent or the other person in question the provision of the fullest, promptest, most certain or otherwise most favorable indemnification and/or advancement.

ARTICLE VII. - RIGHT OF FIRST REFUSAL

Section 1. RIGHT OF FIRST REFUSAL. No stockholder shall sell, assign, pledge, or in any manner transfer any of the shares of common stock of the Corporation or any right or interest therein, whether voluntarily or by operation of law, or by gift or otherwise, except by a transfer which meets the requirements hereinafter set forth in this bylaw:

(a) If the stockholder desires to sell or otherwise transfer any of his shares of common stock, then the stockholder shall first give written notice thereof to the Corporation. The notice shall name the proposed transferee and state the number of shares to be transferred, the proposed consideration, and all other terms and conditions of the proposed transfer.

(b) For thirty (30) days following receipt of such notice, the Corporation shall have the option to purchase all or any portion of the shares specified in the notice at the price and upon the terms set forth in such notice. In the event of a gift, property settlement or other

transfer in which the proposed transferee is not paying the full price for the shares, and that is not otherwise exempted from the provisions of this bylaw, the price shall be deemed to be the fair market value of the common stock at such time as determined in good faith by the Board of Directors. In the event the Corporation elects to purchase all or any portion of the shares, it shall give written notice to the transferring stockholder of its election and settlement for said shares shall be made as provided below in paragraph (d).

(c) The Corporation may assign its rights hereunder.

(d) In the event the Corporation and/or its assignee(s) elect to acquire any of the shares of the transferring stockholder as specified in said transferring stockholder's notice, the Secretary of the Corporation shall so notify the transferring stockholder and settlement thereof shall be made in cash within thirty (30) days after the Secretary of the Corporation receives said transferring stockholder's notice; provided that if the terms of payment set forth in said transferring stockholder's notice were other than cash against delivery, the Corporation and/or its assignee(s) shall pay for said shares on the same terms and conditions set forth in said transferring stockholder's notice.

(e) In the event the Corporation and/or its assignees(s) do not elect to acquire all of the shares specified in the transferring stockholder's notice, said transferring stockholder may, within the sixty-day period following the expiration of the option rights granted to the Corporation and/or its assignee(s) herein, transfer the shares specified in said transferring stockholder's notice which were not acquired by the Corporation and/or its assignee(s) as specified in said transferring stockholder's notice. All shares so sold by said transferring stockholder shall continue to be subject to the provisions of this bylaw in the same manner as before said transfer.

(f) Anything to the contrary contained herein notwithstanding, the following transactions shall be exempt from the provisions of this bylaw:

A stockholder's transfer of any or all shares of common stock held either during such stockholder's lifetime or on death by will or intestacy to such stockholder's immediate family or to any custodian or trustee for the account of such stockholder or such stockholder's immediate family. "Immediate family" as used herein shall mean spouse, lineal descendant, father, mother, brother or sister of the stockholder making such transfer.

In any such case, the transferee, assignee, or other recipient shall receive and hold such common stock subject to the provisions of this bylaw, and there shall be no further transfer of such stock except in accord with this bylaw.

(g) The provisions of this bylaw may be waived with respect to any transfer either by the Corporation, upon duly authorized action of its Board of Directors, or by the stockholders, upon the express written consent of the owners of a majority of the voting power of the Corporation (excluding the votes represented by those shares to be transferred by the transferring stockholder). This bylaw may be amended or repealed either by a duly authorized action of the Board of Directors or by the stockholders, upon the express written consent of the owners of a majority of the voting power of the Corporation.

(h) Any sale or transfer, or purported sale or transfer, of securities of the Corporation shall be null and void unless the terms, conditions and provisions of this bylaw are strictly observed and followed.

(i) The foregoing right of first refusal shall terminate on either of the following dates, whichever shall first occur:

(i) On May 13, 2004; or

(ii) Upon the date securities of the Corporation are first offered to the public pursuant to a registration statement filed with, and declared effective by, the United States Securities and Exchange Commission under the Securities Act of 1933, as amended.

(j) The certificates representing shares of common stock of the Corporation shall bear on their face the following legend so long as the foregoing right of first refusal remains in effect:

"The shares represented by this certificate are subject to a right of first refusal option in favor of the Corporation and/or its assignee(s), as provided in the bylaws of the Corporation."

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CERTIFICATE OF SECRETARY

The undersigned, being the Secretary of Digirad Corporation, a Delaware corporation, does hereby certify the foregoing to be the Bylaws of said Corporation, as adopted by the directors of the Corporation and which remain in full force and effect as of the date hereof.

Executed at San Diego, California effective as of January 2, 1997.

/s/ Craig Andrews

Craig Andrews, Secretary

EXHIBIT 10.1

L-99-1261

LICENSE AGREEMENT

FOR

DETECTOR

BETWEEN

DIGIRAD CORPORATION

AND

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

THROUGH THE

ERNEST ORLANDO LAWRENCE
BERKELEY NATIONAL LABORATORY

L-99-1261

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L-99-1261

LICENSE AGREEMENT FOR DETECTOR

This license agreement (the "Agreement") is entered into by The Regents of the University of California ("The Regents"), Department of Energy contract-operators of the Ernest Orlando Lawrence Berkeley National Laboratory, 1 Cyclotron Road, Berkeley, CA 94720, (jointly, "Berkeley Lab"), and Digirad Corporation, ("Digirad") a Delaware corporation, having as its principle place of business, 9350 Trade Place San Diego, California 92126-6330.

1. BACKGROUND

1.1 A certain invention, ***
***
(the "Invention"), was made under U.S. Department of Energy contract
***
*** at the University of California, Ernest Orlando Lawrence Berkeley National Laboratory by Steven Edward Holland.

1.2 As DOE sponsored development of the Invention, this Agreement and the resulting license are subject to overriding obligations to the federal government pursuant to the provisions of the applicable law or regulations.

1.3 Berkeley Lab wants the Invention developed and used to the fullest extent so that the general public enjoys the benefits of the government-sponsored research.

1.4 Digirad wants to obtain certain rights from Berkeley Lab for the commercial development, manufacture, use, and sale of the Invention.

1.5 Digirad entered into an Option Agreement with Berkeley Lab to license the above referenced invention on June 3, 1998.

1.6 Digirad is a "small business firm" as defined at Section 2 of Public Law 85-536 (15 U.S.C. 632).

Therefore the parties agree as follows:

2. DEFINITIONS

2.1 "Effective Date" means the date of execution by the last signing party.

2.2 "Field of Use" means the development, production and use ***
***
***

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L-99-1261

2.3 "Highly Inflationary Currency" means the currency of any economy with a cumulative inflation rate of *** or more over the most recent *** , as

measured by consumer price indices published by the ***
***

2.4 "Licensed Patents" means patent rights to any subject matter claimed in or covered by

***
***

*** or any corresponding foreign patent application or patent, for which Digirad has met the requirements of Section 15.2 herein; any division, reexamination, continuation, continuation-in-part (excluding new matter contained and claimed in that continuation-in-part), or of which such application is a successor; any patents issuing on any of the foregoing, and all renewals, reissues and extensions thereof, or other equivalents of a renewal, reissues and extension thereof.

2.5 "Licensed Product" means any product, service or process that employs or is produced by the practice of any invention claimed in Licensed Patents and whose manufacture, use, practice, sale, or lease would constitute, but for the license Berkeley Lab grants to Digirad under this Agreement, an infringement of any claim in Licensed Patents.

2.6 "Selling Price" for the purpose of computing royalties means the price at which Digirad or its sublicensee sells the Licensed Product in an arms-length transaction, less the sum of the following deductions that are customary and actually taken: ***

***
***
***

When a Licensed Product is not sold, but is otherwise disposed of, the Selling Price of that Licensed Product for the purposes of computing royalties is ***

***

*** When such products are not currently being offered for sale by Digirad, the Selling Price of a Licensed Product otherwise disposed of, for the purpose of computing royalties, is ***

***

*** When such products are not currently sold or offered for sale by Digirad or others, then the Selling Price, for the purpose of computing royalties, shall be

***

*** For sales of Licensed Products to a Joint Venture or Affiliate (as defined in Paragraphs 2.7 and 2.8 below) that are provided by Digirad to the Joint Venture or Affiliate (directly or indirectly for resale by said Joint Venture or Affiliate) at a reduced price from that customarily charged to an unrelated third party, then the royalty paid to Berkeley Lab will be based on ***

***

*** For sales of Licensed Products to a Joint

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Venture or Affiliate (as defined in Paragraphs 2.7 and 2.8 below) that are provided directly or indirectly by Digirad to the Joint Venture or Affiliate as an end user at a reduced price from that customarily charged to an unrelated third party, then the royalty paid to Berkeley Lab will be based on *** ***

2.7 "Affiliate(s)" of a party means ***

***
***
***

2.8 "Joint Venture" means any separate entity established pursuant to an agreement between a third party and Digirad to constitute a vehicle for a joint venture, which separate entity purchases, sells or acquires Licensed Products from Digirad at prices substantially different from those at which Digirad would have charged other purchasers that deal at arms length with Digirad. If such separate entity is established, then Berkeley Lab shall collect from Digirad royalties on the Selling Price of Licensed Products by the entity and shall not collect royalties on the Selling Price of Licensed Products by Digirad.

3. LICENSE GRANT

3.1 Subject to the limitations set forth in this Agreement, Berkeley Lab grants to Digirad a nontransferable (subject to Section 18.1), limited (by the terms of Sections 3.2 and 3.7) worldwide exclusive, royalty-bearing license, under Licensed Patents, only in the Field of

Use, to develop, make, have made, use, practice, sell, have sold, and lease the Licensed Products.

3.2 Any license under this Agreement is subject to the following: (a) DOE's royalty-free license for federal government practice only, and (b) DOE's option to grant licenses either if reasonable steps to commercialize the Invention are not carried out or in order to meet federal regulations. Digirad shall use best efforts to commercialize Licensed Patents.

3.3 Berkeley Lab also grants to Digirad the right to issue royalty-bearing sublicenses only in the Field of Use to make, use, practice and sell Licensed Products, so long as Digirad has current exclusive rights in the Field of Use.

3.4 Any sublicense Digirad grants must be consistent with all the rights and obligations due Berkeley Lab and the United States Government under this Agreement, including, without limitation, the obligations under Section 3.2 above.

3.5 Digirad shall provide Berkeley Lab with a copy of each sublicense issued under this Agreement; collect payment of all royalties due Berkeley Lab from sublicensees; and summarize and deliver all reports due Berkeley Lab from sublicensees under Article 7 (PROGRESS AND ROYALTY REPORTS).

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3.6 If this Agreement terminates for any reason, *** ***

3.7 Berkeley Lab expressly reserves the right to use the Invention and associated technology for educational and research purposes subject to the limitations of Section 13.2.

4. LICENSE ISSUE FEE

4.1 Digirad shall pay Berkeley Lab a license issue fee of *** *** *** *** *** ***

4.2 This fee is ***

5. ROYALTIES AND PAYMENTS

5.1 Digirad shall pay to Berkeley Lab an earned royalty *** *** of the Selling Price of each Licensed Product Digirad sells.

5.2 Under this Agreement a Licensed Product is considered to be sold when invoiced, or if not invoiced, when delivered to a third party. But when the last patent covering a Licensed Product expires or when the license terminates, any shipment made on or before the day of that expiration or termination that has not been billed out before is considered as sold (and therefore subject to royalty) unless returned to Digirad within *** . Berkeley Lab shall credit royalties that Digirad pays on a Licensed Product that the customer does not accept or returns.

5.3 For each sublicense, Digirad shall pay Berkeley Lab *** *** *** *** *** ***

5.4 Digirad shall pay to Berkeley Lab by *** of each year the difference between the earned royalties for that calendar year Digirad has already paid to Berkeley Lab and the minimum annual royalty set forth in the following schedule. Berkeley Lab shall credit that minimum annual royalty paid against the earned royalty due and owing for the calendar year in which Digirad made the minimum payment

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CALENDAR YEAR MINIMUM ANNUAL ROYALTY --

---- 1999
$ *** 2000
$ *** 2001
$ *** 2002
and each year thereafter
$ ***

5.5 Digirad shall send payment for royalties accruing to Berkeley Lab *** together with its royalty report under paragraph 7.4. Digirad shall be entitled to credit ***
***
***
***

5.6 Digirad shall make checks payable to "The Regents of the University of California (Berkeley Lab/L-99-1261.)" Digirad shall pay Berkeley Lab only in United States dollars. If a Licensed Product is sold for moneys other than United States dollars (not including Highly Inflationary Currency), Digirad shall ***
***
***
***

If a Licensed Product is sold for a Highly Inflationary Currency, Digirad shall ***
***
***
***
***

5.7 Digirad may not reduce royalties payable by ***
***
***
***

5.8 If Digirad cannot promptly remit any royalties for sales in any country where a Licensed Product is sold because of legal restrictions, Digirad may deposit in United States funds royalties due Berkeley Lab to Berkeley Lab's account in a bank or other depository in that country. If Digirad is not permitted to deposit those payments in U.S. funds under the laws of that country, Digirad may deposit those payments in the local currency to Berkeley Lab's account in a bank or other depository in that country.

5.9 If a court of competent jurisdiction and last resort holds invalid any patent or any of the patent claims within Licensed Patent in a final decision from which no appeal has or can be taken, Digirad's obligation to pay royalties based on that patent or claim will cease as of the date of that final decision. Digirad, however, shall pay any royalties that accrued before that decision or that are based on another patent or claim not involved in that decision.

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5.10 Digirad has no duty to pay Berkeley Lab royalties under this Agreement on a Licensed Product Digirad sells to the United States Government including any United States Government agency. Digirad shall reduce the amount charged for a Licensed Product sold to the United States Government by an amount equal to the royalty otherwise due Berkeley

Lab. Such royalty otherwise due Berkeley Lab will count towards the minimum annual royalty payments per Section 5.4.

6. PERFORMANCE REQUIREMENTS

6.1 Digirad shall proceed with the development, manufacture and sale of Licensed Products and shall use diligent commercial efforts to endeavor to market them within a reasonable time after the Effective Date in quantities sufficient to meet the market demand.

6.2 Digirad shall use diligent commercial efforts to obtain all necessary governmental approvals for the manufacture, use and sale of Licensed Products.

6.3 Digirad is entitled to exercise prudent and reasonable business judgment in meeting its performance requirements under this Agreement.

6.4 If Digirad is unable to perform any of the following, then Berkeley Lab may either terminate this Agreement or reduce this limited exclusive license to a nonexclusive license:

6.4.1 *** *** or

6.4.2 *** *** ***

It is the understanding of the parties hereto that any termination of the Agreement or reduction of this license to a nonexclusive license as a result of Digirad's failure to meet the specifications of Section 6.4, shall be subject to the *** cure period set forth in Section 10.1 below.

6.5 If Berkeley Lab grants a non-exclusive license to any other party upon royalty rates more favorable than those of this Agreement after reducing this license to a non-exclusive license, then *** *** ***

6.6 Digirad and Berkeley Lab by mutual written consent may amend or extend the requirements of Sections 6.4.1-6.4.2 at the written request of Digirad in response to legitimate business reasons.

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7. PROGRESS AND ROYALTY REPORTS

7.1 Beginning June 1, 1999 and *** thereafter, Digirad shall submit to Berkeley Lab a progress report covering Digirad's activities related to the development and testing of all Licensed Products and the obtaining of the governmental approvals necessary for marketing. Digirad shall make these progress reports for each Licensed Product until the first commercial sale of that Licensed Product occurs anywhere in the world.

7.2 The progress reports Digirad submits under Section 7.1 must include, but not be limited to, the following topics:

7.2.1 summary of work completed related to the requirements of Section 6.4;

7.2.2 key scientific discoveries;

7.2.3 summary of work in progress;

7.2.4 current schedule of anticipated milestones;

7.2.5 market plans for introduction of Licensed Products; and

7.2.6 number of full-time equivalent (FTEs) employees or agents working on the development of Licensed Products.

7.3 Digirad shall also report to Berkeley Lab in its immediately subsequent royalty report on the date of first commercial sale of each Licensed Product in the U.S. and in each other country.

7.4 After the first commercial sale of a Licensed Product anywhere in the world, Digirad shall make *** royalty reports to Berkeley Lab on or *** *** Each royalty report must cover the most recently completed *** and must show:

7.4.1 the Selling Price of each type of Licensed Product sold by Digirad;

7.4.2 the number of each type of Licensed Product sold;

7.4.3 the royalties, in U.S. dollars, payable under this Agreement on those sales;

7.4.4 the exchange rates used in calculating the royalty due;

7.4.5 the royalties on government sales that otherwise would have been due under Section 5.10; and

7.4.6 for each sublicense, if any:

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7.4.6.1 the sublicensee;

7.4.6.2 the number, description, and aggregate Selling Prices of Licensed Products that the sublicensee sold or otherwise disposed of;

7.4.6.3 the exchange rates used in calculating the royalties due Berkeley Lab from the sublicensee's sales.

7.5 If no sales of Licensed Products have been made during any reporting period, Digirad shall make a statement to this effect.

8. BOOKS AND RECORDS

8.1 Digirad shall keep books and records accurately showing all Licensed Products manufactured, used, or sold under the terms of this Agreement. Digirad shall preserve those books and records for at least *** from the date of the royalty payment to which they pertain and shall open them to inspection by representatives or agents of Berkeley Lab *** *** ***

8.2 Berkeley Lab shall bear the fees and expenses of Berkeley Lab's representatives performing the examination of the books and records. But if the representatives discover an error resulting in a deficiency in royalties of more than *** of the total royalties due for any year, then Digirad shall bear the fees and expenses of these representatives and the difference between the earned royalties and the reported royalties (which shall be subject to the provisions of Article 20 (LATE PAYMENTS)).

9. LIFE OF THE AGREEMENT

9.1 Unless otherwise terminated by operation of law or by acts of the parties in accordance with the terms of this Agreement, this Agreement is in force from the Effective Date and expires concurrently with the last-to-expire Licensed Patent.

9.2 Any termination of this Agreement shall not affect the rights and obligations set forth in the following Articles:

Article 8	Books and Records
Article 12	Disposition of Licensed Products on Hand upon Termination
Article 13	Use of Names and Trademarks and Nondisclosure of Agreement
Article 14	Limited Warranty

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Article 19 Indemnification

Article 25 Export Control Laws

9.3 Termination does not affect in any manner any rights of Berkeley Lab or Digirad arising under this Agreement before the termination.

10. TERMINATION BY BERKELEY LAB

10.1 If Digirad violates or fails to perform any material term of this Agreement, then Berkeley Lab may give written notice of such default ("Default Notice") to Digirad. If Digirad fails to cure that default and provide Berkeley Lab with reasonable evidence of the cure within *** of the Default Notice, Berkeley Lab may terminate this Agreement and the licenses granted by a second written notice ("Termination Notice") to Digirad. If Berkeley Lab sends a Termination Notice to Digirad, this Agreement automatically terminates on the effective date of the Termination Notice.

11. TERMINATION BY DIGIRAD

11.1 Digirad at any time may terminate this Agreement in whole or as to any portion of Licensed Patents by giving written notice to Berkeley Lab. Digirad's termination of this Agreement will be effective *** after its notice. If that termination is without cause within *** years of the Effective Date, Digirad shall ***

***

***

12. DISPOSITION OF LICENSED PRODUCTS ON HAND UPON TERMINATION

12.1 Within *** of termination of this Agreement for any reason, Digirad shall provide Berkeley Lab with a written inventory of all Licensed Products in process of manufacture or in stock. Digirad shall make diligent efforts to dispose of those Licensed Products within *** of termination. The sale of any Licensed Product within *** is subject to the terms of this Agreement. Digirad shall cease sales of *** *** after termination.

13. USE OF NAMES AND TRADEMARKS AND NONDISCLOSURE OF AGREEMENT

13.1 In accordance with California Education Code Section 92000, Digirad shall not use in advertising, publicity or other promotional activities any name, trade name, trademark, or other designation of the University of California, nor shall Digirad so use "Berkeley Lab" (including any contraction, abbreviation, or simulation of any of the foregoing) without

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Berkeley Lab's prior written consent. As the sole exception to the above prohibition, Digirad shall give appropriate credit to the inventor(s) and Berkeley Lab at scientific symposia, and in technical publications in scientific journals where the licensed technology is referenced. Berkeley Lab shall not use in advertising, publicity or other promotional activities any name, trade name, or other designation of Digirad without its prior written consent except as set forth in Section 13.2 below.

13.2 Neither party may disclose the terms or existence of this Agreement to a third patty without express written permission of the other party, except when required under either the California Public Records Act or other applicable law or court order or by Berkeley Lab's contracts with the DOE or any other Federal or State entity. Notwithstanding the foregoing, Berkeley Lab may disclose the existence of this Agreement and the extent of the grant in Article 3, but shall not otherwise disclose the terms of this Agreement, except to the DOE.

13.3 The Proprietary Information Exchange Agreement between Digirad and the

Regents of the University of California as Managers of the Lawrence Berkeley National Laboratory, as attached hereto as Exhibit A, shall remain in effect through the term outlined in the Proprietary Information Exchange Agreement.

14. LIMITED WARRANTY

14.1 Berkeley Lab warrants to Digirad that it has the lawful right to grant this license.

14.2 Except as set forth above, this license and the associated Invention(s) are provided WITHOUT WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR ANY OTHER WARRANTY, EXPRESS OR IMPLIED. BERKELEY LAB MAKES NO REPRESENTATION OR WARRANTY THAT LICENSED PRODUCTS WILL NOT INFRINGE ANY PATENT OR OTHER PROPRIETARY RIGHT.

14.3 IN NO EVENT WILL BERKELEY LAB OR DIGIRAD BE LIABLE FOR ANY INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES INCURRED BY THE OTHER PARTY HERETO RESULTING FROM EXERCISE OF THIS LICENSE OR THE USE OF THE INVENTION(S) OR LICENSED PRODUCTS UNDER THIS AGREEMENT. THIS PROVISION, 14.3, DOES NOT APPLY TO INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES AWARDED IN A JUDGEMENT FOR A THIRD PARTY AGAINST A PARTY OR THE PARTIES HERETO.

14.4 Except as set forth above, nothing in this Agreement may be construed as:

14.4.1 a warranty or representation by Berkeley Lab as to the validity or scope of any of Berkeley Lab's rights in Licensed Patents;

14.4.2 a warranty or representation that anything made, used, sold or otherwise disposed of under any license granted in this Agreement is or will be free from infringement of patents of third parties;

14.4.3 an obligation to bring or prosecute actions or suits against third parties for patent infringement, except as specifically provided for in Article 16 (Patent Infringement);

14.4.4 a grant by implication, estoppel or otherwise of any license or rights under any patents of Berkeley Lab other than Licensed Patents, regardless of whether such patents are dominant or subordinate to Licensed Patents; or

14.4.5 an obligation to furnish any know-how not provided in Licensed Patents.

15. PATENT PROSECUTION AND MAINTENANCE

15.1 Berkeley Lab shall diligently maintain the United States patents for Licensed Patents (including any future patent rights provided for in Section 2.4) using counsel of its choice that is reasonably acceptable to Digirad. Berkeley Lab shall bear the cost of pre-paring, filing, prosecuting and maintaining any United States patent covered by this Agreement.

15.2 Berkeley Lab has filed foreign patent applications corresponding to the PCT Application referred to in Section 2.4 (namely US 97/20173) as follows:

(a) European Patent Office (EPO), designating

(i) ***

(ii) ***

(iii) ***

(iv) ***

(v) ***

(vi) ***

(vii) ***

(viii) ***

(ix) ***

(x) ***

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(xi) ***

(xii) ***

(b) ***

Berkeley Lab has no obligation to take action to file or prosecute foreign patent applications on behalf of Digirad until the following occurs:

15.2.1 (With the exception of the three countries listed in 15.3 below) Digirad makes that request in writing to Berkeley Lab within *** after the Effective Date. The absence of the required notice from Digirad to Berkeley Lab acts as an election not to proceed on protecting foreign rights.

15.2.2 That notice also identifies the countries Digirad desires.

15.2.3 Digirad pays Berkeley Lab the foreign license fee as set forth in paragraph 15.4

15.3 Digirad agrees to pay Berkeley Lab *** , upon the day of execution of this Agreement, for the foreign patent counterparts to the U.S. application for the following countries: ***

15.4 The foreign license fee for each foreign counterpart in addition to those listed in Section 15.3 to a United States patent application shall be *** for each national filing or for each country designated in the PCT filing for entry into the national phase, European Patent Convention ("EPC") filing, or similar regional filing.

15.5 Berkeley Lab shall bear the expense of preparing, filing, prosecuting and securing all foreign patent applications that Berkeley Lab files at Digirad's request (pursuant to 15.2 above). Digirad shall bear the expense of ***
***
***

15.6 Berkeley Lab shall promptly provide Digirad with copies of all relevant documentation so that Digirad is informed of the continuing prosecution of Licensed Patents and any foreign patent applications Berkeley Lab files under Section 15.2. Additionally, Berkeley Lab shall provide Digirad a *** *** summarizing the status of the Licensed Patents and any foreign patent applications Berkeley Lab files under Section 15.2. Digirad shall keep this documentation confidential. Berkeley Lab shall use all reasonable efforts to amend any patent application to include claims reasonably requested by Digirad to protect the products contemplated to be sold under this Agreement.

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16. PATENT INFRINGEMENT

16.1 If either party learns of the substantial infringement of any of Licensed Patents, the party shall so inform the other party in writing and shall provide the other party with reasonable evidence of the infringement. During the period and in a jurisdiction where Digirad has exclusive rights under this Agreement, ***
***
*** Both parties shall use their best efforts in cooperation with each other to terminate such infringement without litigation.

16.2 ***
***
***

16.3 ***
***
***

16.4 ***
***
***

17. WAIVER

17.1 The waiver of any breach of any term of this Agreement does not waive any other breach of that or any other term.

18. ASSIGNMENT

18.1 This Agreement is binding upon and shall inure to the benefit of Berkeley Lab, its successors and assigns. Upon written notice to Berkeley Lab, Digirad may assign this Agreement to a Digirad wholly owned subsidiary or to a purchaser or acquirer of all or substantially all of the business or assets of Digirad. Any other attempt by Digirad to assign this Agreement is void unless Digirad obtains the prior written consent of Berkeley Lab. Berkeley Lab shall not unreasonably withhold or delay that consent.

19. INDEMNIFICATION

19.1 Digirad shall indemnify, hold harmless and defend Berkeley Lab and the U.S. Government and their officers, employees, and agents; the sponsors of the research that led to the Invention; and the inventors of the patents and patent applications in Licensed Patents against any and all claims, suits, losses, damage, costs, fees, and expenses resulting from or arising out of exercise of this license or any sublicense. Berkeley Lab shall promptly notify Digirad in writing of any claim or suit brought against Berkeley Lab in respect of which Berkeley Lab intends to invoke the provisions of this Article 19

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(INDEMNIFICATION). ***
***
***

19.2 Digirad, at its sole expense, shall insure its activities in connection with the work under this Agreement and obtain and keep in force Comprehensive or Commercial Form General Liability Insurance (contractual liability and products liability included) or equivalent program of self-insurance with limits as follows:

19.2.1	Each Occurrence	$ ***
19.2.2	Products/Completed Operations Aggregate	$ ***
19.2.3	Personal and Advertising Injury	$ ***
19.2.4	General Aggregate (commercial form only)	$ ***

19.3 The coverages and limits referred to in this Article 19 do not in any way limit the liability of Digirad. Digirad shall furnish Berkeley Lab with certificates of insurance, including renewals, evidencing compliance with all requirements at least *** prior to the first commercial sale, use, practice or distribution of a Licensed Product.

19.3.1 If such insurance is written on a claims-made form, coverage shall provide for a retroactive date of placement on or before the Effective Date.

19.3.2 Digirad shall maintain the general liability insurance specified during: (a) the period that the Licensed Product is being commercially distributed or sold (other than for the purpose of obtaining regulatory approvals) by Digirad or by a sublicensee or agent of Digirad, and (b) a reasonable period thereafter, but in no event less than five years.

19.4 The insurance coverage of Section 19.2 must:

19.4.1 Provide for *** advance written notice to Berkeley Lab of any modification of any such coverage and provide immediate notice of cancellation of such coverage.

19.4.2 Indicate that DOE and "The Regents of the University of California" are endorsed as additional insureds, but only with respect to the subject matter of this Agreement.

19.4.3 Include a provision that the coverages are primary and do not participate with, nor are excess over, any valid and collectible insurance or program of self-insurance carried or maintained by Berkeley Lab.

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20. LATE PAYMENTS

20.1 Excepting issues arising from Section 26.1, if Digirad does not make a payment to Berkeley Lab when due, Digirad shall pay to Berkeley Lab *** ***
***

21. NOTICES

21.1 Any payment, notice or other communication this Agreement requires or permits either party to give must be in writing to the appropriate address given below, or to such other address as one party designates by written notice to the other party. The parties deem payment, notice or other communication to have been properly given and to be effective (a) on the date of delivery if delivered in person; (b) on the fourth day after mailing if mailed by first-class mail, postage paid; (c) on the second day after delivery to an overnight courier service such as Federal Express, if sent by such a service; or (d) upon confirmed transmission by telecopier. The parties addresses are as follows:

For payments to Berkeley Lab:	For all other notices to Berkeley Lab:
Ernest Orlando Lawrence	Ernest Orlando Lawrence
Berkeley National Laboratory	Berkeley National Laboratory
Accounting/Financial Management	Technology Transfer Department
P.O. Box 528	Mailstop 90-1070
Berkeley, California 94701	One Cyclotron Road
Attention: Licensing Accountant	Berkeley, California 94720
Fax: 510/486-5995	Attention: Licensing Manager
Telephone: 510/486-7113	Fax: 510/486-6457
	Telephone: 510/486-6467

In the case of Digirad:

Digirad Corporation
9350 Trade Place
San Diego, California 92126-6334
Attention: President
Fax: 619-549-7714
Telephone: 619-578-5300

22. U.S. MANUFACTURE

22.1 Digirad shall have Licensed Products produced for sale in the United States manufactured substantially in the United States so long as Digirad has current exclusive rights in the Field of Use.

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23. PATENT MARKING

23.1 Digirad shall mark all Licensed Products made, used or sold under this Agreement, or their containers, in accordance with the applicable patent marking laws.

24. GOVERNMENT APPROVAL OR REGISTRATION

24.1 If the law of any nation requires that any governmental agency either approve or register this Agreement or any associated transaction, Digirad shall assume all legal obligations to do so. Digirad shall notify Berkeley Lab if it becomes aware that this Agreement is subject to a U.S. or foreign government reporting or approval requirement. Digirad shall make all necessary filings and pay all costs, including fees, penalties, and all other costs associated with such reporting or approval process. Berkeley Lab shall fully cooperate with Digirad, to the extent it is able to do so within the law and established Berkeley Lab policy, to provide documentation and testimony to obtain such approval or registration, at Digirad's sole expense.

25. EXPORT CONTROL LAWS

25.1 Digirad shall observe all applicable United States and foreign laws and regulations with respect to the transfer of Licensed Products and related technical data, including, with-out limitation, the International Traffic in Arms Regulations (ITAR) and the Export Administration Regulations.

26. FORCE MAJEURE

26.1 If a party's performance required under this Agreement is rendered impossible or unfeasible due to any catastrophes or other major events beyond its reasonable control, including, without limitation, the following, the parties are excused from performance, war, riot, and insurrection; laws, proclamations, edicts, ordinances or regulations; strikes, lockouts or other serious labor disputes; and floods, fires, explosions, or other natural disasters. When such events abate, the parties' respective obligations under this Agreement must resume.

27. MISCELLANEOUS

27.1 The headings of the several sections are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

27.2 This Agreement is not binding upon the parties until it is signed below on behalf of each party.

27.3 No amendment or modification hereof shall be valid or binding upon the parties unless made in writing and signed on behalf of each party.

27.4 This Agreement embodies the entire and final understanding of the parties on this subject. It supersedes any previous representations, agreements, or understandings, whether oral or written.

27.5 If a court of competent jurisdiction holds any provision of this Agreement invalid, illegal or unenforceable in any respect, this Agreement must be construed as if that invalid or illegal or unenforceable provision is severed from the Agreement, provided, however, that the parties shall negotiate in good faith substitute enforceable provisions that most nearly effect the parties' intent in entering into this Agreement.

27.6 This Agreement must be interpreted under California law without regard to principles of conflicts of laws.

Berkeley Lab and Digirad execute this Agreement in duplicate originals through their duly authorized respective officers in one or more counterparts, that taken together, are but one instrument.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, THROUGH THE ERNEST ORLANDO LAWRENCE BERKELEY NATIONAL LABORATORY	DIGIRAD CORPORATION
By /S/ PIERMARIA T. ODDONE	By /S/ SCOTT HUENNEKENS
(signature)	(signature)
By PIERMARIA T. ODDONE	By SCOTT HUENNEKENS

(Please Print)	(Please Print)
Title DEPUTY DIRECTOR	Title PERS. & COO
Date MAY 16, 1999	Date 5-19, 1999

Approved as to form

/S/ GLENN R. WOODS

GLENN R. WOODS
LAWRENCE BERKELEY NATIONAL LABORATORY

Exhibit A to License Agreement

PROPRIETARY INFORMATION EXCHANGE AGREEMENT

This AGREEMENT made and entered into as of this 23rd day of April 1, 1999 by and between DIGIRAD, a Delaware corporation, whose address is 9350 Trade Place, San Diego, California 92126-6334 and The Regents of the University of California as Managers of the Lawrence Berkeley National Laboratory, whose address is 1 Cyclotron Road, Berkeley, CA 94720.

WHEREAS, the parties hereto are undertaking negotiations towards the development of a license agreement between them, and

WHEREAS, in furtherance of such license, each undersigned party (the "Receiving Party") understands that the other party (the "Disclosing Party") has disclosed or may disclose information relating to the Disclosing Party's business and/or intellectual property (including, without limitation, chemical formulas, computer programs, software, technical drawings, names and expertise of employees and consultants, know-how, formulas processes, ideas, inventions (whether patentable or not), schematics and other technical business, financial, customer and product development plans, forecasts, strategies and information, and any and all information, technical or otherwise related to describing Digirad's ***
***
***
sub-assemblies and related assemblies for use in medical imaging systems and other applications), information which to the extent previously, presently, or subsequently disclosed to the Receiving Party is hereinafter referred to as "Proprietary Information" of the Disclosing Party.

NOW, THEREFORE, in consideration of the parties' discussions and any access the Receiving Party may have to Proprietary Information of the Disclosing Party, the parties agree that any information received by one party from the other shall be governed by the following terms and conditions:

Definition:

"Proprietary Information" shall not include information which:

(a) was rightfully in possession of or known to the Receiving Party prior to receiving it from the Disclosing Party; or

(b) is or becomes part of the public knowledge or literature by acts other than those of the Receiving Party and without fault of the receiving Party; or

(c) was rightfully disclosed to the Receiving Party by a third party provided the Receiving Party complies with restrictions imposed by the third party; or

(d) is transmitted after the expiration of this Agreement; or

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(e) is disclosed by the Receiving Party under a valid order created by a court or government agency, provided that the Receiving Party provides prior written notice to the Disclosing Party of such obligation and the

opportunity to oppose such disclosure.

(f) the Receiving Party develops independently, subsequent to receipt of Proprietary Information and for which Receiving Party can demonstrate by written records that independent development occurred without knowledge or use of Proprietary Information.

HANDLING OF PROPRIETARY INFORMATION:

The Receiving Party agrees to (i) hold the Disclosing Party's Proprietary Information in strict confidence as a fiduciary and to take reasonable precautions to protect such Proprietary Information and (ii) handle the Proprietary Information in the same manner that it handles its own proprietary information of like importance, but with at least reasonable degree of care, for a period of five (5) years after the date of disclosure.

LIMITATION ON DISCLOSURE:

The Receiving Party shall not disclose, in whole or in part, such Proprietary Information to any third party without the prior written consent of the Disclosing Party for the period that such information is to be handled as proprietary. The Receiving Party may disclose Proprietary Information only to those of its employees who would require knowledge of such Proprietary Information for the purposes contemplated by this Agreement and who is similarly bound in writing.

LIMITATION OF USE:

The Receiving Party shall make no use, in whole or in part, of any such Proprietary Information other than in furtherance of the purpose of this Agreement without the prior written consent of the Disclosing Party.

If the purpose of the information exchange is the preparation of a proposal to the United States Government, Proprietary Information of either party may be incorporated into the proposal to the United States Government, provided that the proposal document bears the restrictive legend contained in Federal Acquisition Regulation 52.215-12 or a substantially similar successor provision.

TERM:

This Agreement shall expire one (1) year from the date recited in the first paragraph of this Agreement. With the exception of information disclosed in accordance with the provisions of the License Agreement for Detector between Digirad Corporation and the Regents of the University of California through the Ernest Orlando Lawrence Berkeley Laboratory, immediately upon a request by the Disclosing Party at any time (which will be effective if actually received or three days after mailed first class postage prepaid to the Receiving Party's address herein), the Receiving Party will turn over to the Disclosing Party all Proprietary Information of the Disclosing Party and all documents or media containing any such Proprietary Information and any and all copies or extracts thereof. The Receiving Party understands that

nothing herein (i) requires the disclosure of any Proprietary Information of the Disclosing Party, which shall be disclosed if at all solely at the option of the Disclosing Party (in particular, but without limitation, any disclosure is subject to compliance with expert control laws and regulations), or (ii) requires the Disclosing Party to proceed with any proposed transaction or relationship in connection with which Proprietary Information may be disclosed. The party's obligations with respect to Proprietary Information disclosed to it prior to expiration/termination shall survive expiration/termination.

RELATIONSHIP OF PARTIES:

This Agreement is intended to provide only for the handling and protection of Proprietary Information exchanged or disclosed hereunder, and shall not be construed as a Teaming, Joint Venture, Partnership, or other similar arrangement. Specifically, this Agreement shall not be construed in any manner to be an obligation to enter into a contract, nor shall it result in any claim whatsoever for reimbursement of costs.

NO LICENSE:

Neither the execution of this agreement nor the furnishing of any Proprietary Information hereunder shall be construed as granting either expressly, by implication, estoppel or otherwise, any license other than as expressly set forth herein under any invention, patent, copyright, trade secret, mask work right, or any other intellectual property right, now or hereafter owned or controlled by the party furnishing same.

U.S. GOVERNMENT REGULATIONS:

A party receiving Proprietary Information shall comply with all relevant United States Government regulations, including the International Traffic in Arms Regulations and the Export Administration Act.

MISCELLANEOUS:

Each party shall perform its respective obligations hereunder without charge to the other.

Except to the extent permitted by the License Agreement for Detector between Digirad Corporation and the Regents of the University of California through the Ernest Orlando Lawrence Berkeley Laboratory, neither party will refer to this Agreement or use the other party's name in any form of publicity or advertising directly or indirectly, without the prior written consent of the party whose name is proposed for use.

Except as to a sale of the business to which this Agreement relates or transfer of the management of the Ernest Orlando Lawrence Berkley Laboratory, the rights and obligations of each party under this Agreement may not be assigned or transferred to any person, firm or corporation, without the express prior written consent of the other party, which consent will not be unreasonably withheld.

Neither party makes any representations regarding the accuracy, completeness, or freedom from defects of the information disclosed, or with respect to infringement of the rights of others.

The Receiving Party acknowledges and agrees that due to the unique nature of the Disclosing Party's Proprietary Information, there may be no adequate remedy at law for any breach of its obligations hereunder, that any such breach may allow the Receiving Party or third parties to unfairly compete with the Disclosing Party resulting in irreparable harm to the Disclosing Party, and therefore, that upon any such breach or any threat thereof, the Disclosing Party may be entitled to appropriate equitable relief in addition to whatever remedies it might have at law. The Receiving Party will notify the Disclosing Party in writing immediately upon the occurrence of any such unauthorized release or other breach of which it is aware. In the event that any of the provisions of this Agreement shall be held by a court or other tribunal of competent jurisdiction to be illegal, invalid or unenforceable, such provisions shall be limited or eliminated to the minimum extent necessary so that this Agreement shall otherwise remain in full force and effect.

ENTIRE AGREEMENT:

This Agreement represents the entire agreement of the parties pertaining to the subject matter of the Agreement, and supersedes any and all prior oral discussions and/or written correspondence or agreements between the parties with respect thereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate original copies by their respective duly authorized representatives.

DIGIRAD	The Regents of the University of California Acting as Manager of the Lawrence Berkeley Laboratory
By: ----------	By: ----------
Name: ----------	Name: ----------
Title: ----------	Title: ----------
Date: ----------	Date: ----------

AMENDMENT #1
TO
LICENSE AGREEMENT FOR DETECTOR

This Amendment (the "Amendment"), effective as of the signing date of the last party to sign below, is entered into by The Regents of the University of California ("The Regents"), Department of Energy contract-operators of the

Ernest Orlando Lawrence Berkeley National Laboratory ("LBNL"), 1 Cyclotron Road, Berkeley, CA 94720, (jointly, "Berkeley Lab"), and Digirad Corporation ("Digirad"), a Delaware corporation having its principal place of business at 9350 Trade Place, San Diego, CA 92126-6330.

THE PARTIES ENTERED INTO A LICENSE AGREEMENT FOR DETECTOR, REFERENCE NUMBER L-90-1261 (THE "AGREEMENT"), EFFECTIVE DATE OF MAY 19, 1999. THE PARTIES NOW DESIRE TO AMEND THE AGREEMENT BY EXPANDING THE LICENSE TO INCLUDE A NON-EXCLUSIVE FIELD OF USE (AS DEFINED BELOW) PURSUANT TO THE TERMS AND CONDITIONS HEREIN. CAPITALIZED TERMS HEREIN SHALL HAVE THE MEANING AS SET FORTH IN THE AGREEMENT EXCEPT AS OTHERWISE DEFINED IN THIS AMENDMENT.

The parties agree as follows:

1. Section 2.2 of the Agreement is hereby deleted in its entirety and replaced with the following:

2.2 "Field of Use" and "Non-Exclusive Field of Use":

2.2.1 "Field of Use" means the development, production and use of ***
***
***

2.2.2 "Non-Exclusive Field of Use" means the development, production and use of ***
***
***

2. Section 2.4 of the Agreement is hereby deleted in its entirety and replaced with the following:

2.4 "Licensed Patents" means patent rights to any subject matter claimed in or covered by any of the following:

2.4.1 US Patent Number ***
***
***

2.4.2 Any resulting patent issued in Germany or France arising from European Patent Convention Application ***

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***

2.4.3 Japan Patent Application ***
***
***

2.4.4 with respect to Sections 2.4.1 to 2.4.3, any division, reexamination, continuation, continuation-in-part (excluding new matter contained and claimed in that continuation-in-part), or of which such application is a successor; any patents issuing on any of the foregoing, and all renewals, reissues and extensions thereof, or other equivalents of a renewal, reissues, and extensions thereof.

3. Section 3.1 of the Agreement is hereby deleted in its entirety and replaced with the following:

3.1 Subject to the limitations set forth in this Agreement, Berkeley Lab grants to Digirad:

3.1.1 a nontransferable (subject to Section 18.1), limited (by the terms of Sections 3.2 and 3.7) worldwide exclusive, royalty-bearing license, under Licensed Patents, only in the Field of Use, to develop, make, have made, use, practice, sell, have sold, and lease the Licensed Products.

3.1.2 a nontransferable (subject to Section 18.1), nonexclusive worldwide, royalty-bearing license, under Licensed Patents, only within the Non-Exclusive Field of Use, to develop, make, have made, use, practice, sell, and lease the Licensed Products.

4. Section 4.1 of the Agreement is hereby deleted in its entirety and replaced with the following:

4.1 As consideration for the licenses granted hereunder:

4.1.1 within the Field of Use, Digirad shall pay Berkeley Lab a license issue fee of ***
***
***

4.1.2 within the Non-Exclusive Field of Use, Digirad shall pay Berkeley Lab a license issue fee of ***
***
***

***

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5. Section 5.1 of the Agreement is hereby deleted in its entirety and replaced with the following:

5.1 Digirad shall pay to Berkeley Lab an earned royalty of:

5.1.1 *** of the Selling Price of each Licensed Product Digirad sells within the Field of Use;

5.1.2 *** of the Selling Price of each Licensed Product Digirad sells within the Non-Exclusive Field of Use;

6. Section 5.4 of the Agreement is hereby deleted in its entirety and replaced with the following:

5.4 Digirad shall pay to Berkeley Lab by *** of each year the difference between the earned royalties for that calendar year Digirad has already paid to Berkeley Lab for the Field of Use and Non-Exclusive Field of Use and the minimum annual royalty set forth in the following schedules for the Field of Use and Non-Exclusive Field of Use. Berkeley Lab shall credit that minimum annual royalty paid against the earned royalty due and owing for the calendar year in which Digirad made the minimum payment; provided that the earned royalties and minimum annual royalties for the Field of Use shall be treated separately from and independent of the earned royalties and minimum annual royalties for the Non-Exclusive Field of Use.

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CALENDAR YEAR
MINIMUM ANNUAL ROVALTY FOR FIELD
MINIMUM ANNUAL ROYALTY FOR OF USE
NON-EXCLUSIVE FIELD OF USE ---

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1999 ***
N/A ------

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2000 ***
N/A ------

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2001 ***
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2002 ***
*** ------

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2003 ***
*** ------

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2004 ***
*** ------

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2005 and
each year
thereafter
*** *** --

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7. Sections 6.4 and 6.5 of the Agreement are hereby deleted in their entirety and replaced with the following:

6.4 If Digirad is unable to perform any of the following, then Berkeley Lab may either terminate this Agreement or reduce the limited exclusive license within the Field of Use to a non-exclusive license within the Field of Use:

6.4.1 With regard to the Field of Use:

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6.4.1.1 *** ***

6.4.1.2 *** ***

6.4.2 With regard to the Non-Exclusive Field of Use:

6.4.2.1 ***

6.4.2.2 ***

6.4.2.3 ***

6.4.2.4 ***

6.4.2.5 ***

6.4.2.6 *** ***

It is the understanding of the parties hereto that any termination of the Agreement or reduction of this license to a non-exclusive license as a result of Digirad's failure to meet the specifications of Section 6.4 shall be subject to the *** day cure period set forth in Section 10.1 below.

6.5 If Berkeley Lab grants a non-exclusive license to any other party within the Field of Use upon royalty rates more favorable than those of this Agreement after reducing the this license within the Field of Use to a non-exclusive license within the Field of Use, then *** *** *** ***

8. The reporting obligations of Section 7 shall apply to both the Field of Use and Non-Exclusive Field of Use, separately and independently. Beginning *** thereafter, Digirad shall submit to Berkeley Lab a progress reports covering Digirad's activities related to the development and testing of all Licensed Products within the Non-Exclusive Field of Use and obtaining of the government approvals necessary for marketing as required pursuant to Section 7.1 ET. SEQ.

9. Section 11.1 of the Agreement is hereby deleted in its entirety and replaced with the following:

11.1 Digirad at any time may terminate this Agreement in whole or as to any portion of Licensed Patents by giving written notice to Berkeley Lab. Digirad's termination

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of this Agreement will be effective *** days after its notice. If that termination pertains to the Field of Use and is without cause within *** years of the Effective Date, Digirad shall *** ***

10. Section 15.2 of the Agreement is hereby deleted in its entirety.

11. Section 15.5 of the Agreement is hereby deleted in its entirety and replaced with the following:

15.5 ***
***
***

12. Section 15.6 of the Agreement is hereby deleted in its entirety and replaced with the following:

15.6 Berkeley Lab shall promptly provide Digirad with copies of all relevant documentation so that Digirad is informed of the continuing prosecution of Licensed Patents. Additionally, upon *** Berkeley Lab shall provide Digirad with a report summarizing the status of the Licensed Patents. Digirad shall keep this documentation confidential. Berkeley Lab shall use all reasonable efforts to amend any patent application to include claims reasonably requested by Digirad to protect the products contemplated to be sold under this Agreement.

13. Digirad acknowledges and agrees that Section 16 applies, other than the first sentence of Section 16.1, only to jurisdictions in which Digirad has exclusive rights under the Agreement. Thus, except for that first sentence of Section 16.1, the entirety of Section 16 will not apply to the Licensed Products insofar as they are within the Non-Exclusive Field of Use.

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14. Except as specifically amended herein, the Agreement is hereby ratified and confirmed.

Berkeley Lab and Digirad execute this Agreement in duplicate originals through their authorized respective officers in one or more counterparts that, taken together, are but one instrument.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, THROUGH THE ERNEST ORLANDO LAWRENCE BERKELEY NATIONAL LABORATORY	DIGIRAD CORPORATION
By /S/ PIERMARIA ODDONE	By /S/ SCOTT HUENNEKENS
(Signature)	(Signature)
By PIERMARIA ODDONE	By SCOTT HUENNEKENS
Title DEPUTY LABORATORY DIRECTOR	Title PRESIDENT AND CEO
Date 5-24-01	Date 5-11-01

Approved as to form

/S/ GLENN R. WOODS
GLENN R. WOODS
LAWRENCE BERKELEY NATIONAL LABORATORY

EXHIBIT 10.2

SOFTWARE LICENSE AGREEMENT

This Software License Agreement ("Agreement") is entered into under seal this 16th day of June, 1999 (the "Effective Date") by and between Segami Corporation, a Maryland corporation having its principal offices at 12624 Golden Oak Drive, Ellicott City MD 21042 ("Segami"), and Digirad Corporation ("Digirad"), a Delaware corporation having its principal offices at 9350 Trade Place. San Diego CA 92126.

Statement of Intention

A. Segami is in the business of the development and sale of software for gamma camera image acquisition, processing and display. Segami's current software is called Mirage

B. Digirad desires to purchase software from Segami for the purpose of gamma camera image acquisition, processing and display which will interface with Digirad's solid state gamma camera.

C. Digirad desires to package the Mirage software and Digirad's hardware for resale as a single product, identifiable only as a Digirad product.

In consideration of the mutual promises and covenants herein contained, the receipt and sufficiency of which are hereby acknowledged, the parties agree under seal as follows:

1. DEFINITIONS. For the purposes of this Agreement, the following terms, when used herein, have the following meaning.

"Base Software"-The existing Mirage software described in EXHIBIT D hereto in object and executable code forms, and all updates, enhancements, revisions, modifications, modules and or sub-modules thereto and all permitted copies, except that Base Software does not include the Interface Development.

"Interface Development"-The new code written and modifications made to the Base Software which will allow use of the Base Software with Digirad's current hardware, in object and executable code forms, and all updates, enhancements, revisions, modifications, modules and or sub-modules thereto and all permitted copies.

"Product" - Digirad's solid state gamma camera bundled together with the Base Software and Interface Development.

2. LICENSE TO DIGIRAD. Subject to all the terms of this Agreement, Segami grants to Digirad a nonexclusive worldwide, fully paid-up license:

(a) to sublicense the Base Software to end-users only in connection with the sale and use of the Products; any such sublicense shall be pursuant to a sublicense agreement for Segami's

benefit that contains applicable similar restrictions and obligations imposed on Digirad hereunder.

(b) to use, adopt, reproduce, display, perform, test, demonstrate and distribute the Base Software as necessary to market, sale and distribute the Products.

(c) sublicense to third parties the distribution rights for the Products and Base Software; any such sublicense shall be pursuant to a sublicense agreement for Segami 's benefit that contains applicable similar restrictions and obligations imposed on Digirad hereunder.

The balance of this Section 2 notwithstanding, the license granted to Digirad shall not include the right to sublicense, sell or distribute the Base Software independently and separate from the Product, with the understanding that Digirad may demonstrate the Base Software or distribute demonstration models of the Base Software, limited in function, for use on systems independent from the Product.

3. USE/LICENSE FEES.

3.1 USE. Segami hereby grants Digirad the right to package and bundle the Base Software with the Product, the Interface Development and Digirad hardware for sale to end-users by Digirad or its subdistributors.

3.2 LICENSE FEES. Digirad shall pay a License Fee (the "License Fee") to Segami, in accordance with the attached Exhibit A, for each copy of the Base Software distributed to any end-user, unless otherwise agreed upon in writing by Segami. Payment of the License Fee shall be made by Digirad and tendered to Segami at the sooner of *** days after customer payment or *** days after customer installation. Digirad will receive a reasonable number of demonstration versions of the Base Software including the dongle keys ("Keys") for using such versions ("Demo Versions") to be used for customer demonstrations and/or Digirad roadshows (not for sale to customers). Segami shall deliver the Demo Versions within *** days upon written request from Digirad.

3.3 AUDIT. Segami shall have the right to audit the books, financial accounts and documents of Digirad *** in each calendar year for which this contract is in force, to verify the number of copies of the Base Software disseminated by Digirad. Segami shall employ an independent Certified Public Accountant at its own cost and expense for such audit. Segami shall give Digirad a minimum of *** days prior written notification of the audit. Digirad shall not unreasonably withhold its cooperation in the audit.

4. INTERFACE DEVELOPMENT.

4.1 DEVELOPMENT. Segami agrees to undertake and complete the code design, programming and testing of the Interface Development. Interface Development shall be in accordance with the specifications on the attached Exhibit B (the "Specifications") and the delivery schedule attached hereto as Exhibit C (the "Delivery Schedule"). Segami shall be

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responsible for obtaining and maintaining operational status and approvals of the Base Software and Interface Development (and any new versions or improvements thereto) under FDA, CE and other regulatory authorities or agencies. Segami agrees that its conduct in performing its obligations under this Agreement shall conform in all material respects to all applicable laws and regulations of the U.S. and foreign governments (and political subdivisions thereof).

4.2 ACCEPTANCE. Digirad will, by written notice, accept or reject any portion of the Interface Development delivered (individually, the "Deliverable(s)") within *** days after receipt. Failure to give notice of acceptance or rejection within that period will constitute acceptance. Digirad may reject any Deliverable only if the Deliverable fails to meet the Specifications or, at the fault or failing of that Deliverable alone, the Product cannot operate in a commercially reasonable manner. If Digirad properly rejects the Deliverable, Segami will correct the failures properly specified in the rejection notice within *** days of the rejection notice. When it believes that it has made the necessary corrections, Segami will again deliver the Deliverable to Digirad and the acceptance/rejection/correction provisions above shall be reapplied until the Deliverable is accepted; provided, however, that upon the *** or any subsequent rejection or if the corrections are not made within *** days of the initial rejection, Digirad may at its option terminate this Agreement by immediate written notice unless the Deliverable is accepted during the notice period.

5. COMPENSATION FOR INTERFACE DEVELOPMENT. Digirad shall make payments to Segami in accordance with the Delivery Schedule. Each payment will be in U.S. dollars from the United States and will be made no later than *** days from the occurrence of the event specified in the Delivery Schedule for which payment is due.

6. OWNERSHIP RIGHTS. As between the parties Segami shall retain all right title and interest, including all patent, copyright, trade secret, trademark, mask work or other rights, in the Base Software, or any other idea or product conceived or reduced to form by Segami, its agents or assigns as of the Effective Date. Digirad shall have all right, title and interest, in the Interface Development. The parties hereby make any assignments necessary to accomplish the foregoing ownership provisions.

7. SUPPORT/MAINTENANCE.

7.1 SUPPORT. During the term of this Agreement:

(1) Segami shall use its best efforts to respond within *** days after receipt of written notice of verifiable defects, and propose a plan for prompt and effective remedy, and shall provide general guidance concerning the Base Software or Interface Development. Defects shall be

reported in writing via electronic mail or facsimile to Segami at the telephone/email numbers provided by Segami to Digirad from time to time.

(2) Segami shall inform Digirad promptly of any changes in the Base Software or delivery schedules.

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(3) Subject to the other terms and conditions of this Agreement, Segami shall use its reasonable best efforts to promptly fill Digirad's orders for Keys. Promptly following the execution of this Agreement, Segami shall place *** Keys in escrow. If Segami materially fails to provide a sufficient number of Keys to Digirad for delivery of Products to end-users, after *** days written notice to Segami, Digirad shall be entitled to receive from escrow any or all of the Keys. If Segami fails to provide a sufficient number of Keys to Digirad for delivery of Products to end-users, after *** days written notice to Segami, Digirad shall be entitled to a fully executed purchase order from Segami to the Key manufacturer ("Escrow Materials") authorizing the Key manufacturer to provide directly to Digirad those Keys reasonably necessary, in Digirad's sole discretion, for Digirad to sell and install Product. In support of the foregoing and promptly after execution of this Agreement, Segami will place in escrow (pursuant to the terms of an escrow agreement in form mutually acceptable to the parties hereto) the Escrow Materials as they exist at the date of the Agreement. Segami will update the escrow with any new or modified Escrow Materials and Keys promptly as it becomes necessary and will notify Digirad when it does so. *** ***

(4) Segami agrees to provide *** standard training *** for Digirad personnel. *** shall be given at Digirad's main office on a schedule reasonably acceptable to Segami but commencing no later than *** days after Digirad's written request. ***
***
***

(5) Segami shall provide free technical support to Digirad personnel up to *** during the first year, and *** per year after that. This does not include time spent on developments set forth in Section 4 or Section 7.1(1). Segami shall provide Digirad with all the user's documentation in its possession.

7.2 MAINTENANCE RELEASES. In the exercise of its sole discretion and from time to time, Segami may develop and make available maintenance release for the Base Software at no cost to Digirad. Such maintenance release shall be patches for the purpose of correcting any deficiencies in the Base Software which may become apparent to Digirad and Segami after successful delivery of the Interface Development.

7.3 ENHANCEMENTS/UPGRADES. In the exercise of its sole discretion and from time to time, Segami may develop and make available for sale through Digirad to end-users, and at an additional license fee to Segami, to be negotiated in good faith by the Parties, substantially upgraded versions of the Base Software which incorporate significant functional changes or additions, or substantially improved performance.

8. CONFIDENTIALITY. Each party agrees that all code, inventions algorithms, know-how and ideas and all other business, technical and financial information they obtain from the other are confidential information and property of the disclosing party ("Confidential Information"). Each party shall use Confidential Information of the other party which is disclosed to it only for the purposes of this Agreement and shall not disclose such Confidential

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Information to-any third party, without the other party's prior written consent, other than to Segami's subcontractors, subdistributors and employees on a need-to-know basis. Each party agrees to take measures to protect the confidentiality of the other party's Confidential Information that, in the aggregate, are no less protective than those measures it uses to protect the confidentiality of its own Confidential Information, but at a minimum, each party shall take reasonable steps to advise their employees, subcontractors and subdistributors of the confidential nature of the Confidential Information and of the prohibitions on copying or revealing such Confidential Information contained herein. The parties each agree to require that the other party's Confidential Information be kept in a reasonably secure location.

Notwithstanding anything to the contrary contained in this Agreement neither party shall be obligated to treat as confidential, or otherwise be subject to the restrictions on use, disclosure or treatment contained in this Agreement for any information disclosed by the other party (the "Disclosing party") which: (1) is rightfully known to the recipient prior to its disclosure by the Disclosing Party; (2) is generally known or easily ascertainable by non-parties of ordinary skill in computer process design or programming or in the business of the client; (3) is released by the Disclosing Party to any other person, firm or entity (including governmental agencies or bureaus) without restrictions; (4) is independently developed by the recipient without any reliance on Confidential Information; or (5) is or later becomes publicly available without violation of this Agreement or may be lawfully obtained by a party from a non-party. Neither party will be liable to the other for inadvertent or accidental -disclosure of Confidential Information if the disclosure occurs notwithstanding the party's exercise of the same level of protection and care that such party customarily uses in safeguarding its own confidential information.

Notwithstanding the foregoing, all Confidential Information developed by Segami, including but not limited to the Interface Development, in connection with this Agreement shall be deemed Confidential Information of Digirad disclosed by Digirad to Segami and exceptions (1) and (4) above will not be applicable thereto.

9. EXPORT CONTROL. Each party hereby agrees to comply with all export laws and restrictions and regulations of the Department of Commerce or other United States or foreign agency or authority, and not to export, or allow the export or re-export of any proprietary information or software or any copy or direct product thereof in violation of any such restrictions, laws or regulations.

10. TERMINATION

10.1 TERMINATION BY DIGIRAD. Digirad may terminate this Agreement if Segami is in material breach of, or default under, this Agreement and such breach or default is not cured within *** days after Digirad delivers written notice of such breach or default to Segami.

10.2 TERMINATION BY SEGAMI. Segami may terminate this Agreement if Digirad is in material breach of or default under, this Agreement and such breach or default is not cured within *** days after written notice to Digirad. A material breach of and default

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under, this Agreement by Digirad shall include, without limitation, the occurrence of the failure of Digirad to pay any License Fee when due.

10.3 SURVIVAL. Sections 5-15 of this Agreement, any accrued rights to payment, any licenses granted in this Agreement that are expressly perpetual and any remedies for breach of this Agreement shall survive termination.

11. LIMITATION OF LIABILITY.

(a) Except under Section 8 and the indemnity provisions of Section 12, neither party nor its affiliates shall, under any circumstances, be liable to the other party or its affiliates for any claim based upon any third party claim or for consequential, incidental, indirect, punitive, exemplary or special damages of any nature whatsoever, or for any damages arising out of or in connection with any malfunctions, delays, loss of data, loss of profit, interruption of service or loss of business or anticipatory profits, even if a party or its affiliates have been apprised of the likelihood of such damages occurring.

(b) ***
***
***

12. INDEMNIFICATION

(a) The parties each agree to indemnify, defend and hold harmless the other from and against any and all amounts, including legal fees and other out-of-pocket expenses, payable under any judgment, verdict, court order or settlement for death or bodily injury or the damage to or loss or destruction of any real or tangible personal property to the extent arising out of the indemnitor's negligence, gross negligence, or willful misconduct in the performance of this Agreement.

(b) Segami agrees to indemnify, defend and hold harmless

Digirad, its distributors and end-users from and against any and all amounts, including legal fees and other out-of-pocket expenses, payable under any judgment, verdict, court order or settlement to the extent resulting from any third party allegation that the Base Software or the work performed by Segami under this Agreement infringes such third party's intellectual property rights, including, without limitation, patent, copyright or trade secret. Should Digirad's use of work performed by Segami be determined to have infringed, or if in Segami's and Digirad's reasonable judgment such use is likely to be infringing, *** *** ***

(c) Digirad agrees to indemnify, defend and hold harmless Segami from and against any and all amounts payable under any judgment, verdict, court order or settlement to the extent resulting from any affiliated third party allegation that the work performed by Segami under this Agreement infringes such third party's intellectual property rights to the extent attributable to software, hardware, data, knowledge or services provided by Digirad.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

(d) The indemnities in this paragraph are contingent upon: (1) the indemnified party promptly notifying the indemnifying party in writing of any claim which may give rise to a claim for indemnification hereunder; (2) the indemnifying party being allowed to control the defense and settlement of such claim; and (3) the indemnified party cooperating with all reasonable requests of the indemnifying party (at the indemnifying party' expense) in defending or settling such claim. The indemnified party shall have the right, at its option and expense, to participate in the defense of any action, suitor proceeding relating to such a claim through a counsel of its own choosing.

13. WARRANTIES. Segami warrants that it has and will obtain agreements with its employees and contractors sufficient to allow it to provide Digirad with the assignments and licenses to intellectual property rights contemplated in this Agreement. Segami also warrants that the Base Software and Interface Development and any part thereof shall meet the Specifications, and perform in a commercially reasonable manner until the later of (i) *** years from the final date of delivery on the Delivery Schedule and (ii) with respect to each product containing the Base Software and/or Interface Development, *** year from the date of installation of such product by Digirad or its distributor to an end-user. If Digirad finds that the Products, or part thereof fail to meet the above warranty, Segami shall, at its option, immediately repair or replace the Base Software and/or Interface Development or part thereof at its costs and expenses without prejudice to any other rights and remedies of Digirad under this Agreement or applicable law. If a Deliverable is rejected, the warranty will extend accordingly from any adjusted final delivery date. Except for Section 14, notwithstanding anything to the contrary contained in this Agreement, Segami makes no other warranties, express or implied, or whether arising by operation of law, course of performance or dealing, custom, usage in the trade or profession or otherwise including without limitation implied warranties of merchantability and fitness for a particular purpose.

14. MILLENNIUM WARRANTY.

14.1 GENERAL, Other sections of this Agreement notwithstanding, Segami represents and warrants that for a period of four (4) years after the Effective Date, the Base Software and the Interface Development will be able to accurately: (a) process any date-roll event with no adverse impact on the functionality of the software including without limitation, the producing of error(s) or abnormal interruption; (b) process date-data calculations including, without limitation, computation, comparisons, sequencing, sorts and extracts and return and display date-data in a consistent manner regardless of the dates used in such date-data whether before, on, during, or after January 1, 2000; (c) process any date-data computations that can be expected from the software if used for its intended purpose, regardless of the date in time on which the processes are actually performed and regardless of the date-data input, whether before, on, during or after January 1, 2000; (d) exchange date-data related information with other hardware, firmware or software with which it interacts, provided that the interacting hardware, firmware or software is itself capable of exchanging accurate date-data; (e) accept and respond to four-digit year-date input in a manner that resolves any ambiguities as to the century in a defined predetermined and appropriate manner; and (f) store and display date-data in ways that are unambiguous as to the determination of the century. No date-data shall cause such software to

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perform an abnormally ending routine or function within the processes or generate incorrect values or invalid results. For purposes of the foregoing, a date-rollover event is defined as any transaction between one calendar year and the following calendar year including, without limitation, any time, date and day-of-the-week progressions and any regularly scheduled leap events. Date-data is defined as any data, formula, algorithm, process, input or output, which includes, calculates or represents a date, day or time, a reference to a date, day or time, or a representation of a date, day or time.

14.2 SPECIAL REMEDIES. In the event of any breach of the warranties and covenants contained in this section, provided that such breach is not cured by Segami within *** days following receipt of written notice of such breach, in addition to other rights and remedies that may be available to Digirad under this Agreement, Segami shall be responsible for: (a) any costs of repairing, replacing and/or correcting the affected software; and (b) cover and other similar damages that are incurred by Digirad as a result of Segami's breach of this warranty.

15. MISCELLANEOUS

15.1 BINDING NATURE. This Agreement shall be binding upon and shall inure to the benefit of the parties to this Agreement and their respective successors and permitted assigns. Segami shall not have any right or ability to assign, transfer, or sublicense any obligations or benefit under this Agreement without the written consent of Digirad, except that Segami may assign and transfer this Agreement and its rights and obligations hereunder to any third party who succeeds to substantially all its business or assets.

15.2 ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the parties and there are no representations, warranties, covenants, or obligations except as set forth in this Agreement. This Agreement supersedes all prior or contemporaneous agreements understandings, negotiations and discussions, written or oral, of the parties to this Agreement, relating to any transaction contemplated by this Agreement.

15.3 SEVERABILITY. Each provision of this Agreement shall be considered separable and if for any reason any provision or provisions in this Agreement are determined to be invalid arid contrary to any existing or future law, that invalidity shall not impair the operation of this Agreement or affect those portions of this Agreement which are valid.

15.4 ARBITRATION. If any dispute or controversy arises among the parties to this Agreement concerning any provision of this Agreement, that dispute or controversy shall be submitted for resolution to a board of arbitration in *** *** *** Such arbitration shall be conducted pursuant to the rules of the American Arbitration Association (the "AAA") or other governing rules and *** *** ***

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15.5 NO AGENCY. This Agreement shall not be deemed to constitute the parties hereto as partners, joint venturers, nor shall either patty hereto be deemed to be an agent of any nature, kind and description whatsoever of the other.

15.6 JURISDICTION AND VENUE. This Agreement shall be governed, enforced, performed and construed in accordance with the laws of the State of *** *** Subject to the provisions of Section 15.4 hereof each of the parties hereto hereby submits to the exclusive jurisdiction of the state and/or federal courts located within the State of *** for any suit, hearing or other legal proceeding of every nature, kind and description whatsoever in the event of any dispute or controversy arising hereunder or relating hereto, or in the event any ruling, finding or other legal determination is required or desired hereunder.

15.7 ATTORNEYS FEES. In the event that legal proceedings are commenced in connection with this Agreement or the transactions contemplated hereby, the party or parties *** *** ***

15.8 AMBIGUITY. The parties acknowledge that each party and its respective counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits, or schedules hereto.

15.9 EXHIBITS. The exhibits attached hereto and each certificate, schedule, list summary or other document provided or delivered

pursuant to this Agreement or in connection with the transactions contemplated hereby are incorporated herein by this reference and made a part hereof.

15.10 COUNTERPARTS. Provided that all parties hereto execute a copy of this Agreement, this Agreement may be executed in counterparts, each of which shall he deemed an original and all of which together shall constitute one and the same instrument. Executed copies of this Agreement may be delivered by facsimile transmission or other comparable electronic means.

15.11 VOLUNTARY AGREEMENT. The parties hereto represent that they have carefully read the foregoing Agreement, understood its terms, consulted with an attorney of their choice, and voluntarily signed the same as their own free act with the intent to be legally bound thereby. The terms of this Agreement are contractual and not a mere recital.

15.12 FORCE MAJEURE. Neither party shall be liable to the other for its failure to perform any of its obligations under this Agreement during any period in which such performance is delayed due to circumstances beyond its control, including acts of God or public authorities, was and war measures, civil unrest, natural disasters or delays in transportation, delivery or supply.

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15.13 NOTICE. All notices under this Agreement shall be in writing and shall be deemed given when personally delivered or three days after being sent prepaid certified or registered United States mail to the address of the party to be noticed as set forth below or such other addresses as such party last provided to the other by notice:

Digirad:	Digirad Corporation 9350 Trade Place San Diego CA 92126 Attn: President and COO
Segami:	Segami Corporation 12624 Golden Oak Drive Ellicott City MD 21042 Attn: Philippe Briandet Ph.D.
Copy to:	Christopher S. Young, Esq. 3440 Ellicott Center Drive Ste. 203 Ellicott City MD 21043

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed under seal as of the date first above written.

ATTEST: Digirad Corporation

By: /s/ ILLEGIBLE
Title: Controller (SEAL)

By: /s/ Scott Huennekens
Title: President & COO

Segami Corporation

By: /s/ ILLEGIBLE (Secretary)
Title: (SEAL)

By: /s/ ILLEGIBLE
Title: President

EXHIBIT A
PRICING SCHEDULE

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EXHIBIT B

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should not be released outside of the company without written permission of the
company.

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EXHIBIT C
DELIVERY SCHEDULE

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EXHIBIT D
SEGAMI'S BASE SOFTWARE

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EXHIBIT 10.3

LOAN AND SECURITY AGREEMENT

Agreement No. _____ Dated as of October 27, 1999

between
MMC/GATX PARTNERSHIP NO. 1

as Lender

and
DIGIRAD CORPORATION
a Delaware corporation
9350 Trade Place
San Diego, CA 92121
as Borrower

CREDIT AMOUNT: $3,000,000

Repayment Period:	36 months
Treasury Note Maturity:	36 months
Loan Margin:	750 basis points
Commitment Termination Dates:	November 1, 1999 (First Loan) June 30, 2000 (Second Loan)

The defined terms and information set forth on this cover page are a part of the LOAN AND SECURITY AGREEMENT, dated as of the date first written above (this "Agreement"), entered into by and between MMC/GATX PARTNERSHIP NO. I ("Lender") and the borrower ("Borrower") set forth above. The terms and conditions of this Agreement agreed to between Lender and Borrower are as follows:

ARTICLE I
INTERPRETATION

1.01 CERTAIN DEFINITIONS. Unless otherwise indicated in this Agreement or any other Operative Document, the following terms, when used in this Agreement or any other Operative Document, shall have the following respective meanings:

"APPLICABLE PREMIUM" shall mean an amount equal to: (i) 4% of the amount being prepaid or accelerated more than twelve (12) months after, but on or before twenty-four (24) months after the first Payment Date, or (ii) 3% of the amount being prepaid or accelerated more than twenty-four (24) months after the first Payment Date; PROVIDED THAT if an Event of Default occurs within twelve (12) months of the first Payment Date (other than an Event of Default specified in Section 9.01 h, i, j, k or l), the Applicable Premium shall be 4% of the amount being prepaid or accelerated.

"BORROWER'S HOME STATE" shall mean California, the state in which Borrower's principal place of business is located.

"BROKER" shall mean Priority Capital.

"BUSINESS DAY" shall mean any day other than a Saturday, Sunday or public holiday under the laws of California or Borrower's Home State or other day on which banking institutions are authorized or obligated to close in California or Borrower's Home State.

"CLAIM" has the meaning given to that term in SECTION 10.03.

"COLLATERAL" has the meaning given to that term in SECTION 5.01.

"COMMITMENT FEE" has the meaning given to that term in SECTION 2.04.

"COMMITMENT TERMINATION DATES" shall mean (a) with respect to the First Loan, November 1, 1999, and (b) with respect to the Second Loan, June 30, 2000, which are the dates specified on the cover page of this Agreement.

"CREDIT AMOUNT" shall mean the maximum aggregate amount of the Loans under this Agreement (if the conditions specified in Schedule 3 are satisfied), which amount is set forth following such term on the cover page of this Agreement.

"DEFAULT" shall mean any event which with the passing of time or the giving of notice or both would become an Event of Default hereunder.

"DEFAULT RATE" shall mean the per annum rate of interest equal to the higher of (i) 18% or (ii) the Prime Rate plus 6%, but such rate shall in no event be more than the highest rate permitted by applicable law.

"DISCLOSURE SCHEDULE" has the meaning set forth in the definition of the term "Permitted Liens."

"ENVIRONMENTAL LAW" shall mean the Resource Conservation and Recovery Act of 1987, the Comprehensive Environmental Response, Compensation and Liability Act, and any other federal, state or local statute, law, ordinance, code, rule, regulation, order or decree (in each case having the force of law) regulating or imposing liability or standards of conduct concerning any Hazardous Material, as now or at any time hereafter in effect.

"EQUIPMENT" has the meaning given to that term in SECTION 5.01.

"EQUIPMENT COLLATERAL" has the meaning given to that term in SECTION 5.01.

"EQUIPMENT LIST" has the meaning given to that term in SECTION 5.04.

"EQUIPMENT LOANS" has the meaning given to that term in SECTION 2.02.

"EQUITY SECURITIES" of any Person shall mean (a) all common stock, preferred stock, participations, shares, partnership interests or other equity interests in and of such Person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

"EVENT OF DEFAULT" has the meaning given to that term in SECTION 9.01.

"FUNDING DATE" shall mean a date on which a Loan is made to or on account of Borrower under this Agreement; provided that the Funding Date for the Second Loan shall be on or after March 31, 2000.

"GAAP" shall mean generally accepted accounting principles and practices as in effect in the United States of America from time to time, consistently applied.

"HAZARDOUS MATERIAL" means any hazardous, dangerous or toxic constituent material, pollutant, waste or other substance, whether solid, liquid or gaseous, which is regulated by any federal, state or local governmental authority.

"INDEBTEDNESS" shall mean, with respect to Borrower or any Subsidiary, the aggregate amount of, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services (excluding trade payables aged less than 180 days), (d) all capital lease obligations of such Person, (e) all obligations or liabilities of others secured by a lien on any asset of such Person, whether or not such obligation or liability is assumed, (f) all obligations or liabilities of others guaranteed by such Person; and (g) any other obligations or liabilities which are required by GAAP to be shown as debt on the balance sheet of such Person. Unless otherwise indicated, the term "INDEBTEDNESS" shall include all Indebtedness of Borrower and the Subsidiaries.

"INTELLECTUAL PROPERTY" shall mean all of Borrower's right, title and interest in and to patents, patent rights (and applications and registrations therefor), trademarks and service marks (and applications and registrations therefor), inventions, copyrights, mask works (and applications and registrations therefor), trade names, trade styles, software and computer programs, trade secrets, methods, processes, know how, drawings, specifications, descriptions, and all memoranda, notes, and records with respect to any research and development, all whether now owned or subsequently acquired or developed by Borrower and whether in tangible or intangible form or contained on magnetic media readable by machine together with all such magnetic media.

"INVESTMENT" shall mean the purchase or acquisition of any capital stock, equity interest, or any obligations or other securities of, or any interest in, any Person, or the extension of any advance, loan, extension of

credit or capital contribution to, or any other investment in, any Person.

"LIEN" shall mean any pledge, bailment, lease, mortgage, hypothecation, conditional sales and title retention agreements, charge, claim, encumbrance or other lien in favor of any Person.

"LOAN" means a loan advanced by Lender to Borrower under this Agreement.

"LOAN MARGIN" shall mean the number of basis points set forth following such term on the cover page of this Agreement.

"LOAN RATE" shall mean, with respect to each Loan, the per annum rate of interest (based on a year of twelve 30-day months) equal to the sum of (a) the U.S. Treasury note rate of a term equal to the Treasury Note Maturity as quoted in THE WALL STREET JOURNAL on the date the Note with respect to each Loan is prepared, plus (b) the Loan Margin.

"NOTE" shall mean one of the secured promissory notes of Borrower substantially in the form of EXHIBIT A.

"OBLIGATIONS" has the meaning given to that term in SECTION 5.01.

"OPERATIVE DOCUMENTS" shall mean this Agreement, the Notes and the Warrants and all other documents, instruments and agreements executed and delivered in connection herewith or therewith or in respect of the closing of the transactions contemplated hereby or thereby.

"PAYMENT DATE" has the meaning given to that term in the applicable Note.

"PERMITTED INDEBTEDNESS" shall mean and include:

(a) Indebtedness of Borrower to Lender;

(b) Indebtedness of Borrower secured by Liens permitted under clause (e) of the definition of Permitted Liens;

(c) Indebtedness arising from the endorsement of instruments in the ordinary course of business;

(d) Indebtedness existing on the date hereof and set forth on the Disclosure Schedule;

(e) Indebtedness consisting of a revolving credit facility in an aggregate principal amount not exceeding the lesser of: (1) $2,500,000, or (2) a borrowing base calculated as a percentage (not exceeding 100%) of qualified accounts receivable plus eligible inventory; and

(f) Subordinated Indebtedness.

"PERMITTED INVESTMENTS" shall mean and include:

(a) Deposits with commercial banks organized under the laws of the United States or a state thereof to the extent such deposits are fully insured by the Federal Deposit Insurance Corporation;

(b) Investments in marketable obligations issued or fully guaranteed by the United States and maturing not more than one (1) year from the date of issuance; and

(c) Investments in open market commercial paper rated at least "Al" or "P1" or higher by a national credit rating agency and maturing not more than one (1) year from the creation thereof.

(d) Investments pursuant to or arising under currency agreements or interest rate agreements entered into in the ordinary course of business;

(e) Investments consisting of deposit accounts of Borrower in which Lender has a perfected security interest; and

(f) Other Investments aggregating not in excess of Two Hundred Fifty Thousand Dollars ($250,000) at any time.

"PERMITTED LIENS" shall mean (a) the Lien created by this Agreement, (b) Liens for fees, taxes, levies, imposts, duties or other governmental charges of any kind which are not yet delinquent or which are being contested in good faith by appropriate proceedings which suspend the collection thereof (PROVIDED, HOWEVER, that such proceedings do not involve any substantial danger of the sale, forfeiture or loss of any item of equipment and that Borrower has adequately bonded such Lien or reserves sufficient to discharge such Lien have been provided on the books of Borrower), (c) Liens identified on the disclosure schedule attached hereto as SCHEDULE 2 ("DISCLOSURE SCHEDULE"), (d) Liens to secure payment of worker's compensation, employment insurance, old age pensions or other social security obligations of Borrower in the ordinary

course of business of Borrower, (e) Liens upon any equipment or other personal property acquired by Borrower more than eighteen (18) months after the date hereof to secure (i) the purchase price of such equipment or other personal property or (ii) lease obligations or indebtedness incurred solely for the purpose of financing the acquisition of such equipment or other personal property; PROVIDED that (A) such Liens are confined solely to the equipment or other personal property so acquired and the amount secured does not exceed the acquisition price thereof, and (B) no such Lien shall be created, incurred, assumed or suffered to exist in favor of Borrower's officers, directors or shareholders holding five percent (5%) or more of Borrower's Equity Securities, (f) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings; and (g) non-exclusive licenses of Intellectual Property entered into in the ordinary course of business and non-exclusive licenses or similar arrangements entered into in connection with joint ventures and corporate collaborations; and (h) Liens securing Indebtedness permitted under clause (e) of the definition of Permitted Indebtedness.

"PERSON" shall mean and include an individual, a partnership, a corporation, a business trust, a joint stock company, a limited liability company, an unincorporated association or other entity and any domestic or foreign national, state or local government, any political subdivision thereof, and any department, agency, authority or bureau of any of the foregoing.

"PRIME RATE" shall mean the interest rate per annum specified in the "Money Rates" column of THE WALL STREET JOURNAL, but such rate shall in no event be more than the highest interest rate permitted by applicable law.

"SUBORDINATED INDEBTEDNESS" shall mean Indebtedness subordinated to the Obligations on terms and conditions acceptable to Lender in its sole discretion.

"SUBSIDIARY" shall mean any corporation of which a majority of the outstanding capital stock entitled to vote for the election of directors (otherwise than as the result of a default) is owned by Borrower directly or indirectly through Subsidiaries.

"TERM" shall mean the period from and after the date hereof until the payment or satisfaction in full of all Obligations under this Agreement and the other Operative Documents.

"THIRD PARTY EQUIPMENT" has the meaning given that term in SECTION 5.05.

"TREASURY NOTE MATURITY" shall mean the period of months set forth following such term on the cover page of this Agreement.

"WARRANTS" shall mean separate warrants to be issued at the direction of Lender to purchase securities of Borrower substantially in the form of EXHIBIT B.

1.02. HEADINGS. Headings in this Agreement and each of the other Operative Documents are for convenience of reference only and are not part of the substance hereof or thereof.

1.03. PLURAL TERMS. All terms defined in this Agreement or any other Operative Document in the singular form shall have comparable meanings when used in the plural form and VICE VERSA.

1.04. CONSTRUCTION. This Agreement is the result of negotiations among, and has been reviewed by, Borrower and Lender and their respective

counsel. Accordingly, this Agreement shall be deemed to be the product of all parties hereto, and no ambiguity shall be construed in favor of or against Borrower or Lender.

1.05. ENTIRE AGREEMENT. This Agreement, together with the terms set forth in each of the other Operative Documents, taken together, constitute and, contain the entire agreement of Borrower and Lender and, with regard to their respective subject matters, supersede any and all prior agreements, term sheets, negotiations, correspondence, understandings and communications among the parties, whether written or oral, with respect to their respective subject matters. Borrower acknowledges that it is not relying on any representation or agreement made by Lender or any employee, agent or attorney of Lender, other than the specific agreements set forth in this Agreement and the Operative Documents.

1.06. OTHER INTERPRETIVE PROVISIONS. References in this Agreement to "Articles," "Sections," "Exhibits," "Schedules" and "Annexes" are to articles, sections, exhibits, schedules and annexes herein and hereto unless otherwise indicated. References in this Agreement and each of the other Operative Documents to any document, instrument or agreement shall include (a) all exhibits, schedules, annexes and other attachments thereto, (b) all documents, instruments or agreements issued or executed in replacement thereof, and (c) such document, instrument or agreement, or replacement or predecessor thereto, as amended, modified and supplemented from time to time and in effect at any given time. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement or any other Operative Document shall refer to this Agreement or such other Operative Document, as the case may be, as a whole and not to any particular provision of this Agreement or such other Operative Document, as the case may be. The words "include" and "including" and words of similar import when used in this Agreement or any other Operative Document shall not be construed to be limiting or exclusive. Unless otherwise indicated in this Agreement or any other Operative Document, all accounting terms used in this Agreement or any other Operative Document shall be construed, and all accounting and financial computations hereunder or thereunder shall be computed, in accordance with GAAP.

ARTICLE II
THE CREDIT

2.01. Credit Facility.

(a) THE CREDIT AMOUNT. Subject to the terms and conditions of this Agreement and relying upon the representations and warranties herein set forth as and when made or deemed to be made, Lender agrees to lend to Borrower a maximum of two Loans (respectively, the "First Loan" and the "Second Loan") in an aggregate amount not to exceed the

Credit Amount. The First Loan shall be in the amount of Two Million Dollars ($2,000,000) and the Second Loan shall be in the amount of One Million Dollars ($1,000,000). The Loans may be prepaid only as set forth in SECTION 2.01(d).

(b) INTEREST RATES. Borrower shall pay interest on the unpaid principal amount of each Loan from the date of such Loan until such Loan is paid in full, at a per annum rate of interest equal to the Loan Rate for such Loan determined in accordance with the definition of Loan Rate. The Loan Rate applicable to a Loan shall not be subject to change in the absence of manifest error. All computations of interest on a Loan shall be based on a year of twelve 30-day months. If Borrower pays interest on a Loan which is determined to be in excess of the then legal maximum rate, then that portion of each interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of such Loan.

(c) PAYMENTS OF PRINCIPAL AND INTEREST. If a Funding Date is not the first day of the month, Borrower shall make an interest only payment on the first Payment Date specified in Lender's Note and thirty-six (36) equal monthly payments of principal plus accrued interest on the outstanding principal amount of such Loan commencing on the first Payment Date as set forth in Lender's Note.

(d) OPTIONAL PREPAYMENT WITH PREMIUM. Borrower may not prepay any Loan within twelve (12) months of its first Payment Date; thereafter, upon ten (10) Business Days' prior written notice to Lender, Borrower may, at its option, at any time, prepay all, and not less than all, of a Loan in full at a prepayment price equal to the principal amount of the Loan, plus interest accrued on the Loan through and including the date of such prepayment, plus a premium on the Loan equal to the Applicable Premium. If an Event of Default occurs and is continuing (other than an Event of Default specified in Section 9.01 h, i, j, k or 1, in which case no Applicable Premium is due and payable), and Lender exercises its right under Section 9.02 to accelerate the Loans or the Loans are automatically accelerated, Borrower expressly agrees that the amount then due and payable shall include the Applicable Premium as of the date of such

acceleration.

2.02. USE OF PROCEEDS; THE LOAN AND THE NOTES; DISBURSEMENT.

(a) USE OF PROCEEDS. The proceeds of the Loans shall be used solely for: (1) working capital, or (2) general corporate purposes of Borrower, or (3) purchase of, or reimbursement to Borrower of the acquisition costs of Equipment ("EQUIPMENT LOANS"), or (4) any combination of the foregoing.

(b) THE LOANS AND THE NOTES. The obligation of Borrower to repay the unpaid principal amount of and interest on each Loan shall be evidenced by a Note issued to Lender and Lender is authorized to endorse on a grid annexed to its Note appropriate notations regarding payments made on the Note; PROVIDED, HOWEVER, that the failure to make, or an error in making, any such notation shall not limit or otherwise affect the obligations of Borrower hereunder or thereunder.

(c) DISBURSEMENT. Lender shall disburse its Loans by wire transfer to Borrower unless otherwise directed in writing by Borrower.

(d) TERMINATION OF COMMITMENT TO LEND. Notwithstanding anything to the contrary in the Operative Documents, Lender's obligations to advance the Loans hereunder shall terminate on the earliest of (i) the occurrence of any Event of Default hereunder and (ii) the respective Commitment Termination Dates.

2.03. OTHER PAYMENT TERMS.

(a) PLACE AND MANNER. Borrower shall make all payments due to Lender in lawful money of the United States, in immediately available funds, at the address for payments and in the manner specified in SECTION 10.05(B).

(b) DATE. Whenever any payment due hereunder shall fall due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

(c) DEFAULT RATE. If either (i) any amounts required to be paid by Borrower under this Agreement or the other Operative Documents (including principal or interest payable on the Loan, any fees or other amounts) remain unpaid after such amounts are due, or (ii) an Event of Default has occurred and is continuing, Borrower shall pay interest on the outstanding principal balance hereunder from the date due or from the date of the Event of Default, as applicable, until such past due amounts are paid in full or until all Events of Defaults are cured, as applicable, at a per annum rate equal to the Default Rate, such rate to change from time to time as the Prime Rate shall change. All computations of such interest at the Default Rate shall be based on a year of 360 days and twelve 30-day months.

(d) FACILITY FEE; COMMITMENT FEE. Upon the execution and delivery of this Agreement, Borrower agrees to pay to Lender a facility fee ("FACILITY FEE") of $25,000 as follows: (i) Borrower has paid a commitment fee in the aggregate amount of $20,000 (the "COMMITMENT FEE"); Twenty Thousand Dollars ($20,000) of the Commitment Fee shall be applied towards the Facility Fee, and (ii) Borrower shall pay to Lender Five Thousand Dollars ($5,000) concurrently with Borrower's execution and delivery of this Agreement. Borrower agrees to pay to Lender within thirty (30) days of invoice Lender's expenses in connection with due diligence or the negotiation, documentation (including without limitation, filing fees related thereto) and funding of the Loans, up to a maximum of Five Thousand Dollars ($5,000); provided that if the First Loan is funded after invoice but before payment, Lender may deduct the invoiced amount from the First Loan proceeds.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

3.01. REPRESENTATIONS AND WARRANTIES. Except as set forth in the Disclosure Schedule, Borrower makes the following representations and warranties to Lender as of the date hereof and again on the Funding Date:

(a) ORGANIZATION AND QUALIFICATION. Borrower is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation and is duly qualified to do business in Borrower's Home State. Borrower has no Subsidiaries.

(b) AUTHORITY. Borrower has all necessary corporate

power, authority and legal right and has obtained all approvals and consents and has given all notices necessary to execute and deliver this Agreement and the other Operative Documents and to perform the terms hereof and thereof. Borrower has all requisite corporate power and authority to own and operate its properties and to carry on its businesses as now conducted.

(c) CONFLICT WITH OTHER INSTRUMENTS ETC. Neither the execution and delivery of any Operative Document to which Borrower is a panty nor the consummation of the transactions therein contemplated nor compliance with the terms, conditions and provisions thereof will conflict with or result in a breach of any of the terms, conditions or provisions of the charter or the bylaws of Borrower or, to its knowledge, any law or any regulation, order, writ, injunction or decree of any court or governmental instrumentality or any material agreement or instrument to which Borrower is a party or by which it or any of its properties is bound or to which it or any of its properties is subject, or constitute a default thereunder or result in the creation or imposition of any Lien, other than Permitted Liens.

(d) PROPERTIES. Borrower has good and marketable title to the Collateral, free and clear of all Liens, other than Permitted Liens. Borrower has good title and ownership of, or is licensed under, all of Borrower 5 current Intellectual Property, with no known infringement of the rights of others. Borrower has not received any communications alleging that Borrower has violated, or by conducting its business as proposed, would violate any proprietary rights of any other Person. Borrower has no knowledge of any infringement or violation by it of the intellectual property rights of any third party and has no knowledge of any violation or infringement by a third party of any of its Intellectual Property. The Collateral and the Intellectual Property constitute substantially all of the assets and property of Borrower.

(e) AUTHORIZATION, GOVERNMENTAL APPROVALS, ETC. The execution and delivery by Borrower of each Operative Document, the granting of the security interest in the Collateral, the issuance of the Warrants, the issuance of the securities into which the Warrants are exercisable, the issuance of any securities into which the securities issuable upon exercise of the Warrants are convertible, and the performance of the obligations herein and therein contemplated have each been duly authorized by all necessary action on the part of Borrower. No authorization, consent, approval, license or exemption of, and no registration, qualification, designation, declaration or filing with, or notice to, any Person is, was or will be necessary to (i) the valid execution and delivery of any Operative Document to which Borrower is a party, (ii) the performance of Borrower's obligations under any Operative Document, or (iii) the granting of the security interest in the Collateral, except for filings in connection with the perfection of the security interest in any of the Collateral or the issuance of the Warrants. The Operative Documents have been or will be duly executed and delivered and constitute or will constitute legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency

or other similar laws of general application relating to or affecting the enforcement of creditors' rights or by general principles of equity.

(f) LITIGATION. There are no actions, suits, proceedings or investigations pending or, to the knowledge of Borrower, threatened against or affecting Borrower, or the business or any property or asset owned by it, before any court or governmental department, agency or instrumentality which, if adversely determined, could reasonably be expected to have a material adverse effect on the financial condition, business or operations of Borrower.

(g) SECURITY INTEREST. Assuming the proper filing of one or more financing statement(s) identifying the Collateral with the proper state and/or local authorities, the security interests in the Collateral granted to Lender pursuant to this Agreement (i) constitute and will continue to constitute first priority security interests (except to the extent any other Permitted Lien may create any priority to Lender's Lien under this Agreement) and (ii) are and will continue to be superior and prior to the rights in the Collateral of all other creditors of Borrower (except to the extent of such Permitted Liens). Except as set forth in the Disclosure Schedule, Borrower does not own any right, title or interest in or to any real property (other than leasehold interests), motor vehicles, promissory notes or other property (excluding Intellectual Property) with respect to which a security interest must be perfected by a method other than the filing of a UCC-1 financing statement.

(h) EXECUTIVE OFFICES. The principal place of business and chief executive office of Borrower, and the office where Borrower will keep all records and files regarding the Collateral, is set forth on the cover page of this Agreement.

(i) SOLVENCY, ETC. Borrower is Solvent (as defined below) and, after the execution and delivery of the Operative Documents and the

consummation of the transactions contemplated thereby, Borrower will be Solvent. "SOLVENT" shall mean, with respect to any Person on any date, that on such date (a) the fair value of the property of such Person is greater than the fair value of the liabilities (including, without limitation, contingent liabilities) of such Person, (b) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital.

(j) CATASTROPHIC EVENTS; LABOR DISPUTES. None of Borrower or its properties is or has been affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or other casualty that could reasonably be expected to have a material adverse effect on the financial condition, business or operations of Borrower. There are no disputes presently subject to grievance procedure, arbitration or litigation under any of the collective bargaining agreements, employment contracts or employee welfare or incentive plans to which Borrower is a party, and there are no strikes, lockouts, work stoppages or slowdowns, or, to the acknowledge of Borrower, jurisdictional disputes or organizing activity

occurring or threatened which could reasonably be expected to have a material adverse effect on the financial condition, business or operations of Borrower.

(k) NO MATERIAL ADVERSE EFFECT. No event has occurred and no condition exists which could reasonably be expected to have a material adverse effect on the financial condition, business or operations of Borrower since December 31, 1998, the date of Borrower's last audited financial statements.

(l) ACCURACY OF INFORMATION FURNISHED. None of the Operative Documents and none of the other certificates, statements or information furnished to Lender by or on behalf of Borrower in connection with the Operative Documents or the transactions contemplated thereby contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Lender recognizes that all financial projections furnished to Lender by or on behalf of Borrower in connection with the Operative Documents or the transactions contemplated thereby are not to be viewed as facts and that actual results during the period or periods covered by such projections may differ from the projected or forecasted results.

(m) CERTAIN AGREEMENTS OF OFFICERS, EMPLOYEES AND CONSULTANTS.

(i) To the knowledge of Borrower, no officer, employee or consultant of Borrower is, or is now expected to be, in violation of any term of any employment contract, proprietary information agreement, nondisclosure agreement, noncompetition agreement, or any other material contract or agreement or any restrictive covenant relating to the right of any such officer, employee or consultant to be employed by Borrower because of the nature of the business conducted or to be conducted by Borrower or relating to the use of trade secrets or proprietary information of others, and to Borrower's knowledge, the continued employment of Borrower's officers, employees and consultants does not subject Borrower to any material liability for any claim or claims arising out of or in connection with any such contract, agreement, or covenant.

(ii) To the knowledge of Borrower, no officers of Borrower, and no employee or consultant of Borrower whose termination, either individually or in the aggregate, could reasonably be expected to have a material adverse effect on the financial condition, business or operations of Borrower, has any present intention of terminating his or her employment or consulting relationship with Borrower.

ARTICLE IV
REPORTING REQUIREMENTS

4.01. FURNISHING REPORTS. Borrower shall furnish to Lender:

(a) FINANCIAL STATEMENTS. So long as Borrower is not subject to the reporting requirements of Section 12 or Section 15 of the Securities and Exchange Act of 1934, as amended, promptly as they are available, unaudited monthly and audited annual financial

statements of Borrower and such other financial information as Lender may reasonably request from time to time. From and after such time as Borrower becomes a publicly reporting company, promptly as they are available and in any event: (i) at the time of filing of Borrower's Form 10-K with the Securities and Exchange Commission after the end of each fiscal year of Borrower, the financial statements of Borrower filed with such Form 10-K; and (ii) at the time of filing of Borrower's Form 10-Q with the Securities and Exchange Commission after the end of each of the first three fiscal quarters of Borrower, the financial statements of Borrower filed with such Form 10-Q.

(b) NOTICE OF DEFAULTS. As soon as possible, and in any event within five (5) Business Days after the discovery of a Default or Event of Default provide Lender with an officer's certificate of Borrower setting forth the facts relating to or giving rise to such Default or Event of Default and the action which Borrower proposes to take with respect thereto.

(c) MISCELLANEOUS. Such other information as Lender may reasonably request from time to time.

ARTICLE V
GRANT OF SECURITY INTEREST
GENERAL PROVISIONS CONCERNING SECURITY

5.01. GRANT OF SECURITY INTEREST. Borrower, in order to secure the payment of the principal and interest with respect to the Loans made pursuant to this Agreement, all other sums due under and in respect hereof and of the other Operative Documents, including fees, charges, expenses and attorneys' fees and costs and the performance and observance by Borrower of all other terms, conditions, covenants and agreements herein and in the other Operative Documents (all such amounts and obligations being herein sometimes called the "OBLIGATIONS"), does hereby grant to Lender and its successors and assigns, a security interest in and to the following property (collectively, the "COLLATERAL"): All right, title, interest, claims and demands of Borrower in and to:

(a) All goods and equipment now owned or hereafter acquired, including, without limitation, all laboratory equipment, computer equipment, office equipment, machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

(b) All inventory now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Borrower's books relating to any of the foregoing;

(c) All contract rights and general intangibles (except to the extent included within the definition of Intellectual Property), now owned or hereafter acquired, including, without limitation, goodwill, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer disks, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance and rights to payment of any kind;

(d) All now existing and hereafter arising accounts, contract rights, royalties, license rights and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Borrower (subject, in each case, to the contractual rights of third parties to require funds received by Borrower to be expended in a particular manner), whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's books relating to any of the foregoing;

(e) All documents, cash, deposit accounts, letters of credit, certificates of deposit, instruments, chattel paper and investment property, including, without limitation, all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts and commodity accounts, and all financial assets held in any securities account or otherwise, wherever located, now owned or hereafter acquired and Borrowers books relating to the foregoing; and

(f) Any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof, including, without limitation, insurance, condemnation, requisition or similar payments and proceeds of the sale or licensing of Intellectual Property to the extent such proceeds no longer constitute Intellectual Property; but

(g) EXCLUDING, all Intellectual Property; and

(h) Any and all of the following equipment collateral (collectively, "EQUIPMENT COLLATERAL"):

All right, title, interest, claims and demands of Borrower in and to each and every item of equipment, fixtures or personal property, whether now owned or hereafter acquired, together with all substitutions, renewals or replacements of and additions, improvements, accessions, replacement parts and accumulations to any and all of such equipment, fixtures or personal property (collectively, the "EQUIPMENT"), together with all proceeds thereof, including, without limitation, insurance, condemnation, requisition or similar payments, and all proceeds from sales, renewals, releases or other dispositions thereof, which is financed with or is designated as collateral for the Obligations on and after the date of this Agreement by designating such equipment, fixtures and personal property on a UCC financing statement listing Borrower as "debtor" and Lender as "secured party."

5.02. DURATION OF SECURITY INTEREST. Lender's security interest in the Collateral shall continue until the payment in full and the satisfaction of all Obligations, whereupon such security interest shall terminate. Lender, upon payment in full and the satisfaction of the Obligations, shall execute such further documents and take such further actions as may be necessary to effect the release and/or termination contemplated by this SECTION 5.02, including duly executing and delivering termination statements for filing in all relevant jurisdictions.

5.03. POSSESSION AND LOCATION OF COLLATERAL. The Collateral is and shall remain in the possession of Borrower at Borrower's address stated on the cover page of this Agreement. So long as no Event of Default has occurred and is continuing, Borrower shall remain in full possession, enjoyment and control of the Collateral (except only as may be otherwise required by Lender for perfection of its security interest therein) and to manage, operate and use the same and each part thereof with the rights and franchises appertaining thereto; PROVIDED, HOWEVER, that the possession, enjoyment, control and use of the Collateral shall at all times be subject to the observance and performance of the terms of this Agreement.

5.04. EQUIPMENT COLLATERAL. On or prior to its execution and delivery of this Agreement, Borrower shall provide Lender with a listing, in detail to Lender's satisfaction, of all of Borrower's equipment, fixtures and personal property (collectively, an "Equipment List"), which, at Lender's option, shall be attached as an exhibit to a UCC financing statement filed by Lender naming Borrower as "debtor" and Lender as "secured party." Within thirty days after the end of every quarter after the date hereof, Borrower shall provide Lender with an Equipment List of equipment, fixtures and personal property acquired by Borrower during such quarter (which may exclude Third Party Equipment), and such Equipment List shall, at Lender's option, be attached as an exhibit to a UCC financing statement filed by Lender naming Borrower as "debtor" and Lender as "secured party." Borrower agrees to execute and deliver to Lender any and all such financing statements to Lender.

5.05. LIEN SUBORDINATION. Lender agrees that the Liens granted to it hereunder (except for Liens in Equipment Collateral) shall be subordinate to the Liens granted in connection with Indebtedness permitted by clause (e) of the definition of Permitted Indebtedness. Lender agrees to enter into a subordination agreement with the lender of the Indebtedness permitted by clause (e) of the definition of Permitted Indebtedness substantially in the form of EXHIBIT D and to negotiate in good faith any changes thereto as long as they are acceptable to Lender. Lender agrees that the Liens granted to it hereunder in Third Party Equipment shall be subordinate to the Liens of future lenders providing equipment financing and equipment lessors for equipment and other personal property acquired by Borrower more than eighteen (18) months after the date hereof ("THIRD PARTY EQUIPMENT"); PROVIDED, that, in the case of equipment financings and leasing such Liens are confined solely to the equipment so financed and the proceeds thereof. Notwithstanding the foregoing, the Obligations hereunder shall not be subordinate in right of payment to any obligations to other lenders, equipment lenders or equipment lessors and Lender's rights and remedies hereunder shall not in any way be subordinate to the rights and remedies of any such lender or equipment lessors. Lender agrees to execute and deliver such agreements and documents as may be reasonably

requested by Borrower from time to time which set forth the lien subordination described in this SECTION 5.05 and are reasonably acceptable to Lender. Lender shall have no obligation to execute any agreement or document

which would impose obligations, restrictions or lien priority on Lender which are less favorable to Lender than those described in this SECTION 5.05.

ARTICLE VI
AFFIRMATIVE COVENANTS

6.01. AFFIRMATIVE COVENANTS.

(a) PAYMENT OF TAXES ETC. Borrower shall pay and discharge all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any properties belonging to it, prior to the date on which penalties attach thereto, and all lawful claims which, if unpaid, might become a Lien upon any of its properties; PROVIDED that there shall be no requirement to pay any such tax, assessment, charge, levy or claim (i) which is being contested in good faith and by appropriate proceedings or which presents no risk of seizure, forfeiture, levy or other event which could jeopardize any Collateral or (ii) for which payment in full is bonded or reserved in Borrower's financial statements.

(b) INSPECTION RIGHTS. Borrower shall, at any reasonable time and from time to time, permit Lender or any of its agents or representatives to inspect the Collateral, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, Borrower and to discuss the affairs, finances and accounts of Borrower with any of its officers or directors relating in each case to Lender's capacity as lender and secured party hereunder and with respect to the Collateral.

(c) MAINTENANCE OF EQUIPMENT AND SIMILAR ASSETS. Borrower shall keep and maintain all items of equipment and other similar types of personal property that form any significant portion or portions of the Collateral in good operating condition and repair and shall make all necessary replacements thereof and renewals thereto so that the value and operating efficiency thereof shall at all times be maintained and preserved. Borrower shall not permit any such material item of Collateral to become a fixture to real estate or an accession to other personal property, without the prior written consent of Lender. Borrower shall not permit any such material item of Collateral to be operated or maintained in violation of any applicable law, statute, rule or regulation. With respect to items of leased equipment (to the extent Lender has any security interest in any residual Borrower's interest in such equipment under the lease), Borrower shall keep, maintain, repair, replace and operate such leased equipment in accordance with the terms of the applicable lease.

(d) INSURANCE. Borrower shall, obtain and maintain, at its own expense, insurance of a type and with such limits as are carried by similarly situated companies, including at a minimum:

(i) "All risk" insurance against loss or damage to the Collateral. The coverage limit shall be determined to Lender's reasonable satisfaction. The deductible shall not exceed $25,000. The policy shall name Lender as loss payee with respect to the Equipment, shall not be invalidated by any action of or breach of warranty by Borrower of any provision thereof and waive subrogation against Lender.

(ii) Commercial general liability insurance (including contractual liability, products liability and completed operations coverages) reasonably satisfactory to Lender. The limit of liability shall be at least $5,000,000 per occurrence. The policy shall be without deductible, except for products liability coverage which may have a deductible up to $25,000. The policy(ies) shall name Lender as an additional insured in the full amount of Borrower's liability coverage limits (or the coverage limits of any successor to Borrower or such successor's parent which is providing coverage), be primary and without contribution as respects any insurance carried by Lender, and contain cross liability and severability of interest clauses.

(iii) Such other insurance against risks of loss and with terms as shall be reasonably required by Lender.

All policies of insurance shall be placed with financially sound, commercial insurers reasonably satisfactory to Lender. All policies of insurance shall provide that Lender shall be given 30 days notice of cancellation of coverage. This notice provision shall be without qualification. On or prior to

the first Funding Date and prior to each policy renewal, Borrower shall furnish to Lender certificates of insurance or other evidence satisfactory to Lender that insurance complying with all of the above requirements is in effect.

ARTICLE VII
NEGATIVE COVENANTS

7.01. NEGATIVE COVENANTS. So long as the Obligations remain outstanding, Borrower shall not:

(a) NAME; LOCATION OF CHIEF EXECUTIVE OFFICE AND COLLATERAL. Without thirty (30) days prior written notice to Lender, change its chief executive office or principal place of business or remove or cause to be removed from the location set forth on the cover page hereof or move any Collateral to a location other than that set forth on the cover page hereof.

(b) LIENS ON COLLATERAL. Create, incur, assume or suffer to exist any Lien of any kind upon any Collateral, whether now owned or hereafter acquired, except Permitted Liens.

(c) NEGATIVE PLEDGE REGARDING INTELLECTUAL PROPERTY. Create, incur, assume or suffer to exist any Lien of any kind upon any Intellectual Property, whether now owned or hereafter acquired, except Permitted Liens.

(d) DISPOSITIONS OF COLLATERAL OR INTELLECTUAL PROPERTY. Convey, sell, offer to sell, lease, transfer, exchange or otherwise dispose of (collectively, a "Transfer") all or any part of the Collateral or Intellectual Property to any Person, other than: (i) Transfers of inventory in the ordinary course of business; (ii) Transfers which would constitute Permitted Liens under clause (g) of the definition of Permitted Liens; or (iii) Transfers of worn-out or obsolete equipment.

(e) DISTRIBUTIONS. (i) Pay any dividends or make any distributions on its Equity Securities; (ii) purchase, redeem, retire, defease or otherwise acquire for value any of its Equity Securities (other than repurchases by cancellation of indebtedness pursuant to the terms of employee stock purchase plans, employee restricted stock agreements or similar arrangements in an aggregate amount not to exceed $100,000); (iii) return any capital to any holder of its Equity Securities as such; (iv) make any distribution of assets, Equity Securities, obligations or securities to any holder of its Equity Securities as such; or (v) set apart any sum for any such purpose; provided, however, that Borrower may pay dividends payable solely in common stock.

(f) MERGERS OR ACQUISITIONS. Merge or consolidate with or into any other Person or acquire all or substantially all of the capital stock or assets of another Person; provided that in the event Borrower requests Lender's consent to such a transaction and Lender does not consent (Lender's decision whether to consent is at Lender's sole discretion), Borrower may prepay the Obligations without any Applicable Premium; provided further, if Lender does consent, the provisions of Section 2.01(d) apply.

(g) TRANSACTIONS WITH AFFILIATES. Enter into any contractual obligation with any affiliate or engage in any other transaction with any affiliate except upon terms at least as favorable to Borrower as an arms-length transaction with unaffiliated Persons.

(h) MAINTENANCE OF ACCOUNTS. Maintain any deposit accounts or accounts holding securities owned by Borrower except (i) accounts located at Silicon Valley Bank, Bank of America and State Street Bank & Trust (Merrill Lynch Premier Institutional Fund), and (ii) other accounts with respect to which Lender takes such action as it deems necessary to obtain a perfected security interest in such account.

(i) INDEBTEDNESS PAYMENTS. (i) Prepay, redeem, purchase, defease or otherwise satisfy in any manner prior to the scheduled repayment thereof any Indebtedness for borrowed money (other than amounts due or permitted to be prepaid under this Loan Agreement or the Notes or under any revolving credit agreement constituting Permitted Indebtedness under clause (e) of the definition of Permitted Indebtedness) or lease obligations, (ii) amend, modify or otherwise change the terms of any Indebtedness for borrowed money or lease obligations so as to accelerate the scheduled repayment thereof or (iii) repay any notes to officers, directors or shareholders. Borrower shall provide a subordination agreement, in the form provided by Lender, between Lender and the following shareholders: Gerald G. Loehr Trust, Jack F. Butler, and Clinton L. Lingren, duly executed by such shareholders within forty-five (45) days after the date of this Agreement.

(j) INDEBTEDNESS. Create, incur, assume or permit to exist any Indebtedness except Permitted Indebtedness.

(k) INVESTMENTS. Make any Investment except for Permitted Investments.

ARTICLE VIII
CONDITIONS PRECEDENT

8.01. CLOSING. At the time of execution and delivery of this Agreement, Borrower shall have duly executed and/or delivered to Lender the items set forth in PART I OF SCHEDULE 3.

8.02. OTHER CONDITIONS. The obligation of the Lender to make the Loans shall be subject to the execution and/or delivery to such Lender of each of the items set forth in PART I OF SCHEDULE 3 and the satisfaction by Borrower of each condition set forth in PART II OF SCHEDULE 3.

8.03. COVENANT TO DELIVER. Borrower agrees (not as a condition but as a covenant) to deliver to Lender each item required to be delivered to Lender as a condition to a Loan, if the Loan is advanced. Borrower expressly agrees that the extension of any Loan prior to the receipt by Lender of any such item shall not constitute a waiver by Lender of Borrower's obligation to deliver such item.

ARTICLE IX
DEFAULT AND REMEDIES

9.01. EVENTS OF DEFAULT. An "Event of Default" shall mean the occurrence of one or more of the following described events:

(a) Borrower shall (i) default in the payment of principal of or interest on any Loan when the same is due, or (ii) default in the payment of any expense or other amount payable hereunder or thereunder for five (5) days after receipt of written notice from a Lender that the same is due; or

(b) Borrower shall breach any provision of SECTION 6.01(d) or SECTION 7.01; or

(c) Borrower shall default in the performance of any covenant, agreement or obligation (other than a covenant, agreement or obligation referred to in, SECTION 9.01 (a) or SECTION 9.01 (b)) contained in any Operative Document (other than the Warrants) and Borrower shall fail to cure within thirty (30) days after receipt of written notice from Lender any default in the performance of any such covenant, agreement or obligation contained therein; or

(d) Borrower shall have breached the terms of any of the Warrants; or

(e) Any representation or warranty made herein or on the Funding Date by Borrower in any Operative Document, or any certificate or financial statement furnished pursuant to the provisions of any Operative Document, shall prove to have been false or misleading in any material respect as of the time made or furnished; or

(f) Any Operative Document shall in any material respect cease to be, or Borrower shall assert that any Operative Document is not, a legal, valid and binding obligation of Borrower enforceable in accordance with its terms; or

(g) Defaults shall exist under any agreements of Borrower which consist of the failure to pay any Indebtedness at maturity or which result in a right by such third party or parties, whether or not exercised, to accelerate the maturity of Indebtedness of Borrower in an aggregate amount in excess of One Hundred Thousand Dollars ($100,000) or a material default shall exist under any financing agreement with Lender or any of Lender's affiliates or Lender shall have received a "Blockage Notice" under a subordination agreement with the lender of the Indebtedness permitted under clause (e) of the definition of Permitted Indebtedness; or

(h) A proceeding shall have been instituted in a court of competent jurisdiction seeking a decree or order for relief in respect of Borrower in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee (or similar official) of

Borrower or for any substantial part of its property, or for the winding-up or liquidation of its affairs, and such proceeding shall remain undismissed or unstayed and in effect for a period of thirty (30) consecutive days or such court shall enter a decree or order granting the relief sought in such proceeding; or

(i) Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian (or other similar official) of Borrower or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action in furtherance of any of the foregoing; or

(j) A final judgment or order for the payment of money in excess of One Hundred Thousand Dollars ($100,000) (exclusive of amounts covered by insurance issued by an insurer not an affiliate of Borrower) shall be rendered against Borrower and the same shall remain undischarged for a period of thirty (30) days during which execution shall not be effectively stayed, or any judgment, writ, assessment, warrant of attachment, or execution or similar process shall be issued or levied against a substantial part of the property of Borrower and such judgment, writ, or similar process shall not be released, stayed, vacated or otherwise dismissed within thirty (30) days after issue or levy; or

(k) If there occurs a material adverse change in Borrower's business, or if there is a material impairment of the prospect of repayment of any portion of the Obligations owing to Lender or a material impairment of the value or priority of Lender's security interests in the Collateral; or

(1) If any material portion of Borrower's assets is attached, seized, subjected to writ or distress warrant, or is levied upon, or comes into possession of any trustee, receiver or Person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within ten (10) days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed of

record with respect to any of Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within ten (10) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contesting by Borrower.

9.02. CONSEQUENCES OF EVENT OF DEFAULT.

(a) If an Event of Default specified under any of CLAUSES (a) THROUGH (g) OR (j) THROUGH (l) OF SECTION 9.01 shall occur and be continuing, Lender may (i) declare all of the Loans, together with interest thereon, plus the Applicable Premium and all other liabilities of Borrower hereunder and under the other Operative Documents to be immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived, and (ii) terminate any commitment to make the Loans and terminate any commitment to advance money or extend credit to or for the benefit of Borrower pursuant to any other agreement or commitment extended by a Lender to Borrower.

(b) If an Event of Default specified under CLAUSE (h) OR (i) OF SECTION 9.01 shall occur, then immediately and without notice (i) the Loans, together with interest thereon, plus the Applicable Premium and all other liabilities of Borrower hereunder and under the other Operative Documents shall automatically become due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, and (ii) Lender's commitments hereunder to make the Loans and any other commitment of Lender to Borrower to advance money or extend credit pursuant to any other agreement or commitment shall be terminated.

(c) Borrower expressly agrees that the amount due and payable upon any such acceleration or prepayment of the Loans contrary to the terms hereof shall include a Applicable Premium as of the date of such acceleration or prepayment (except for an Event of Default specified in Section 9.01 h, i, j, k or l).

9.03. RIGHTS REGARDING COLLATERAL. Borrower agrees that when any Event of Default has occurred and is continuing, Lender shall have the rights,

options, duties and remedies of a secured party as permitted by law and, in addition to and without limiting the foregoing, Lender may exercise any one or more or all, and in any order, of the remedies herein set forth, including the following:

(a) Lender, personally or by agents or attorneys, shall have the right (subject to compliance with any applicable mandatory legal requirements) to require Borrower to assemble the Collateral and make it available to Lender at a place to be designated by Lender or to take immediate possession of the Collateral, or any portion thereof, and for that purpose may pursue the same wherever it may be found, and may enter any of premises of Borrower, with or without notice, demand, process of law or legal procedure, to the extent permitted by applicable law, and search for, take possession of, remove, keep and store the same, or use and operate or lease the same until sold. In furtherance of Lender's rights hereunder, Borrower hereby grants to

Lender an irrevocable, non-exclusive license (exercisable without royalty or other payment by Lender) to use, license or sublicense any patent, trademark, trade name, copyright or other Intellectual Property in which Borrower now or hereafter has any right, title or interest together with the right of access to all media in which any of the foregoing may be recorded or stored; provided, however, that such license shall only be exercisable in connection with the disposition of Collateral upon Lender's exercise of its remedies hereunder.

(b) Lender may, if at the time such action may be lawful and always subject to compliance with any mandatory legal requirements, either with or without taking possession and either before or after taking possession, without instituting any legal proceedings whatsoever, having first given notice of such sale by registered or certified mail to Borrower once at least ten (10) days prior to the date of such sale, and having first given any other notice which may be required by law, sell and dispose of the Collateral, or any part thereof, at a private sale or at public auction, to the highest bidder, in one lot as an entirety or in separate lots, and either for cash or on credit and on such terms as Lender may determine, and at any place (whether or not it be the location of the Collateral or any part thereof) designated in the notice referred to above. To the extent permitted by applicable law, any such sale or sales may be adjourned from time to time by announcement at the time and place appointed for such sale or sales, or for any such adjourned sale or sales, without further published notice, and Borrower, Lender or the holder or holders of the Notes, or of any interest therein, may bid and become the purchaser at any such sale.

(c) Lender may proceed to protect and enforce this Agreement and the other Operative Documents by suit or suits or proceedings in equity, at law or in bankruptcy, and whether for the specific performance of any covenant or agreement herein contained or in execution or aid of any power herein granted; or for foreclosure hereunder, or for the appointment of a receiver or receivers for any real property security or any part thereof, or for the recovery of judgment for the Obligations or for the enforcement of any other proper, legal or equitable remedy available under applicable law.

9.04. WAIVER BY BORROWER. Upon the occurrence of an Event of Default, to the extent permitted by law, Borrower covenants that it will not at any time insist upon or plead, or in any manner whatsoever claim or take any benefit or advantage of, any stay or extension law now or at any time hereafter in force, nor claim, take nor insist upon any benefit or advantage of or from any law now or hereafter in force providing for the valuation or appraisement of the Collateral or any part thereof prior to any sale or sales thereof to be made pursuant to any provision herein contained, or to the decree, judgment or order of any court of competent jurisdiction; nor, after such sale or sales, claim or exercise any right under any statute now or hereafter made or enacted by any state or otherwise to redeem the property so sold or any part thereof, and, to the full extent legally permitted, except as to rights expressly provided herein, hereby expressly waives for itself and on behalf of each and every Person, except decree or judgment creditors of Borrower, acquiring any interest in or title to the Collateral or any part thereof subsequent to the date of this Agreement, all benefit and advantage of any such law or laws, and covenants that it will not invoke or utilize any such law or laws or otherwise hinder, delay or impede the execution of any power herein granted and delegated to Lender, but will suffer and permit the execution of every such power as though no such power, law or laws had been made or enacted.

9.05. EFFECT OF SALE. Any sale, whether under any power of sale available to Lender or by virtue of judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of Borrower in and to the property sold, and shall be a perpetual

bar, both at law and in equity, against Borrower, its successors and assigns, and against any and all persons claiming the property sold or any part thereof under, by or through Borrower, its successors or assigns.

9.06. APPLICATION OF COLLATERAL PROCEEDS. The proceeds and/or avails of the Collateral, or any part thereof, and the proceeds and the avails of any remedy hereunder (as well as any other amounts of any kind held by Lender at the time of, or received by Lender after, the occurrence of an Event of Default hereunder) shall be paid to and applied as follows:

(a) FIRST, to the payment of reasonable costs and expenses, including all amounts expended to preserve the value of the Collateral, of foreclosure or suit, if any, and of such sale and the exercise of any other rights or remedies, and of all proper fees, expenses, liability and advances, including reasonable legal expenses and attorneys' fees, incurred or made hereunder by Lender;

(b) SECOND, to the payment to Lender of the amount then owing or unpaid on the Notes, and in case such proceeds shall be insufficient to pay in full the whole amount so due, owing or unpaid upon the Notes, then FIRST, to the unpaid interest thereon, SECOND, to unpaid principal thereof and third to the remaining balance of the Obligations under the Notes; such application to be made upon presentation of the Notes, and the notation thereon of the payment, if partially paid, or the surrender and cancellation thereof, if fully paid;

(c) THIRD, to the payment of other amounts then payable to Lender under any of the Operative Documents; and

(d) FOURTH, to the payment of the surplus, if any, to Borrower, its successors and assigns, or to whomsoever may be lawfully entitled to receive the same.

9.07. REINSTATEMENT OF RIGHTS. If Lender shall have proceeded to enforce any right under this Agreement or any other Operative Document by foreclosure, sale, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely, then and in every such case (unless otherwise ordered by a court of competent jurisdiction), Lender shall be restored to its former position and rights hereunder with respect to the property subject to the security interest created under this Agreement.

ARTICLE X
MISCELLANEOUS

10.01. MODIFICATIONS, AMENDMENTS OR WAIVERS. The provisions of any Operative Document may be modified, amended or waived only by a written instrument signed by the parties thereto.

10.02. NO IMPLIED WAIVERS; CUMULATIVE REMEDIES; WRITING REQUIRED. No delay or failure of Lender in exercising any right, power or remedy hereunder shall affect or operate as a waiver thereof; nor shall any single or partial exercise thereof or any abandonment or discontinuance of steps to enforce such a right, power or remedy preclude any further exercise thereof or of any other right, power or remedy. The rights and remedies hereunder of Lender are cumulative and not exclusive of any rights or remedies which it would otherwise have. Any waiver, permit, consent or approval of any kind or character on the part of Lender of any breach or default under this Agreement or any such waiver of any provision or condition of this Agreement must be in writing and shall be effective only in the specified instance and to the extent specifically set forth in such writing.

10.03. EXPENSES; INDEMNIFICATION. Borrower agrees upon demand to pay or reimburse Lender for all liabilities, obligations and out-of-pocket expenses, including reasonable fees and expenses of counsel for Lender, from time to time arising in connection with the enforcement or collection of sums due under the Operative Documents, and in connection with any amendment or modification of the Operative Documents or any "work-out" in connection with the Operative Documents. Borrower shall indemnify, reimburse and hold Lender, each of Lender's partners, and each of their respective successors, assigns, agents, officers, directors, shareholders, servants, agents and employees harmless from and against all liabilities, losses, damages, actions, suits, demands, claims of any kind and nature (including claims relating to environmental discharge, cleanup or compliance), all costs and expenses whatsoever to the extent they may be incurred or suffered by such indemnified party in connection therewith (including reasonable attorneys' fees and expenses), fines, penalties (and other charges of applicable governmental authorities), licensing fees relating to any item of Collateral, damage to or loss of use of property (including consequential or special damages to third parties or damages to Borrower's property), or bodily injury to or death of any person (including any agent or employee of Borrower) (each, a "CLAIM"), directly or indirectly relating to or arising out of the use of the proceeds of the Loans or otherwise, the falsity of

any representation or warranty of Borrower or Borrower's failure to comply with the terms of this Agreement or any other Operative Document during the Term. The foregoing indemnity shall cover, without limitation, (i) any Claim in connection with a design or other defect (latent or patent) in any item of equipment included in the Collateral, (ii) any Claim for infringement of any patent, copyright, trademark or other Intellectual Property right, (iii) any Claim resulting from the presence on or under or the escape, seepage, leakage, spillage, discharge, emission or release of any Hazardous Materials on the premises of Borrower, including any Claims asserted or arising under any Environmental Law, or (iv) any Claim for negligence or strict or absolute liability in tort; PROVIDED, HOWEVER, that Borrower shall not indemnify Lender for any liability incurred by Lender as a direct and sole result of Lender's gross negligence or willful misconduct. Such indemnities shall continue in full force and effect, notwithstanding the expiration or termination of this Agreement. Upon Lender's written demand, Borrower shall assume and diligently conduct, at its sole cost and expense, the entire defense of Lender, each of its partners, and each of its respective, agents, employees, directors, officers, shareholders, successors and assigns against any indemnified Claim described in this SECTION 10.03. Borrower shall not settle or compromise any Claim against or involving Lender without first obtaining Lender's written consent thereto, which consent shall not be unreasonably withheld.

10.04. WAIVERS. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT OR ANYWHERE ELSE, BORROWER AGREES THAT IT SHALL NOT SEEK FROM LENDER UNDER ANY THEORY OF LIABILITY (INCLUDING ANY THEORY IN TORTS), ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES.

10.05. NOTICES; PAYMENTS.

(a) All notices and other communications given to or made upon any party hereto in connection with this Agreement shall be in writing (including telexed, telecopied or telegraphic communication) and mailed (by certified or registered mail), telexed, telegraphed, telecopied or delivered to the respective parties, as follows:

Borrower: At the address set forth on the cover page of this Agreement.

Lender: MMC/GATX PARTNERSHIP NO. I
c/o MEIER MITCHELL & COMPANY
4 Orinda Way, Suite 200B
Orinda, California 94563

or in accordance with any subsequent written direction from either party to the other. All such notices and other communications shall, except as otherwise expressly herein provided, be effective when received; or in the case of delivery by messenger or overnight delivery service, when left at the appropriate address.

(b) Unless Lender specify otherwise in writing, all payments shall be made by wire transfer to:

GATX Capital Corporation

Bank Name:	Bank of America
Bank Address:	Dallas, Texas 75202
Account No.:	3750878673
ABA Routing No.:	111-000012
Reference:	Digirad Invoice #_____

10.06. TERMINATION. This Agreement shall terminate at the end of the Term; PROVIDED, HOWEVER, that the termination of this Agreement shall not affect any of the rights and remedies of Lender hereunder, it being understood and agreed that all such rights and remedies shall continue in full force and effect until payment of all amounts owed to Lender under or in connection with the Operative Documents, whether on account of principal, interest, fees or otherwise.

10.07. SEVERABILITY. If any provision of any Operative Document is held invalid or unenforceable to any extent or in any application, the remainder of such Operative Document and all other Operative Documents, or the application of such provision to different Persons or circumstances or in different jurisdictions, shall not be affected thereby.

10.08. SURVIVAL. All representations, warranties, covenants and agreements of Borrower contained herein or made in writing in connection herewith shall survive the execution and delivery of the Operative Documents,

the making of the Loans hereunder, the granting of security and the issuance of the Notes.

10.09. RELATIONSHIP OF PARTIES. Borrower and Lender acknowledge, understand and agree that:

(a) The relationship between the Borrower, on the one hand, and Lender, on the other, is, and at all time shall remain solely that of a borrower and lender. Lender shall not under any circumstances be construed to be partners or joint venturers of Borrower or any of its Affiliates; nor shall Lender under any circumstances be deemed to be in a relationship of confidence or trust or a fiduciary relationship with Borrower or any of its Affiliates, or to owe any fiduciary duty to Borrower or any of its Affiliates. Lender does not undertake or assume any responsibility or duty to Borrower or any of its Affiliates to select, review, inspect, supervise, pass judgment upon or otherwise inform the Borrower or any of its Affiliates of any matter in connection with its or their Property, any Collateral held by Lender or the operations of Borrower or any of its Affiliates. Borrower and each of its Affiliates shall rely entirely on their own judgment with respect to such matters, and any review, inspection, supervision, exercise of judgment or supply of information undertaken or assumed by Lender in connection with such matters is solely for the protection of Lender and neither Borrower nor any Affiliate is entitled to rely thereon.

10.10. GOVERNING LAW. This Agreement, the other Operative Documents and the rights and obligations of the parties hereto and thereto shall be governed by and construed and enforced in accordance with the laws of the State of California. Any action to enforce this Agreement against Borrower may be brought in California or, with regard to Collateral, may also be brought wherever such Collateral is located.

10.11. SUCCESSORS AND ASSIGNS. This Agreement and the other Operative Documents shall be binding upon and inure to the benefit of Lender, all future holders of the Notes, Borrower and their respective successors and permitted assigns, except that Borrower may not assign or transfer its rights hereunder or any interest herein without the prior written consent of Lender. Lender may sell to any other financial entity (a "PARTICIPANT") participation interests in Lender's rights under this Agreement and the other Operative Documents; provided that notwithstanding the sale of participations, Lender shall remain solely responsible for the performance of its obligations under this Agreement, Lender shall remain the holder of its Note for all purposes under this Agreement and Borrower shall continue to deal solely and directly with Lender in connection with this Agreement and the other Operative Documents. Lender may disclose the Operative Documents and any other financial or other information relating to Borrower or any Subsidiary to any potential Participant, provided that such Participant agrees to protect the confidentiality of such documents and information using the same measures that it uses to protect its own confidential information.

10.12. COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute one and the same instrument.

10.13. FURTHER ASSURANCES. Borrower will, at its own expense, from time to time do, execute, acknowledge and deliver all further acts, deeds, conveyances, transfers and assurances, and all financing and continuation statements and similar notices, reasonably necessary or proper for the perfection of the security interest being herein provided for in the Collateral, whether now owned or hereafter acquired.

10.14. POWER OF ATTORNEY IN RESPECT OF THE COLLATERAL. Borrower does hereby irrevocably appoint Lender (which appointment is coupled with an interest), the true and lawful attorney-in-fact of Borrower with full power of substitution, for it and in its name (a) to perform (but Lender shall not be obligated to and shall incur no liability to Borrower or any third party for failure to perform) any act which Borrower is obligated by this Agreement to perform but fails to perform, (b) to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for any and all rents, issues, profits, avails, distributions, income, payment draws and other sums in which a security interest is granted under SECTION 5.01 with full power to settle, adjust or compromise any claim thereunder as fully as if Lender were Borrower itself, (c) to receive payment of and to endorse the name of Borrower to any items of Collateral (including checks, drafts and other orders for the payment of money) that come into Lender's possession or under Lender's control, (d) to make all demands, consents and waivers, or take any other action with respect to, the Collateral, (e) in Lender's discretion, to file any claim or take any other action or institute proceedings, either in its own name or in the name of Borrower or otherwise, which Lender may reasonably deem necessary or appropriate to protect and preserve the right, title and interest of Lender in and to the Collateral, and (f) to otherwise act with respect thereto as though Lender were

the outright owner of the Collateral; PROVIDED, HOWEVER, that the power of attorney herein granted shall be exercisable only upon the occurrence and during the continuation of an Event of Default unless in Lender's reasonable opinion immediate action is necessary to preserve or protect the Collateral. Borrower agrees to reimburse Lender upon demand for all reasonable costs and expenses, including attorneys' fees and expenses, which Lender may incur while acting as Borrower's attorney in fact hereunder, all of which costs and expenses are included within the Obligations.

10.15. CONFIDENTIALITY. All information (other than periodic reports filed by Borrower with the Securities and Exchange Commission) disclosed by Borrower to Lender in writing or through inspection pursuant to this Agreement shall be considered confidential. Lender agrees to use the same degree of care to safeguard and prevent disclosure of such confidential information as Lender uses with its own confidential information, but in any event no less than a reasonable degree of care. Lender shall not disclose such information to any third party (other than Lender's or Lender's partner's attorneys and auditors subject to the same confidentiality obligation set forth herein) and shall use such information only for purposes of evaluation of its investment in Borrower and the exercise of Lender's rights and the enforcement of its remedies under this Agreement and the other Operative Agreements. The obligations of confidentiality shall not apply to any information that (a) was known to the public prior to disclosure by

Borrower under this Agreement, (b) becomes known to the public through no fault of Lender, (c) is disclosed to Lender by a third party having a legal right to make such disclosure, or (d) is independently developed by Lender.

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Agreement as of the day and year first above written.

DIGIRAD CORPORATION

By: /s/ Scott Huennekens

Name: Scott Huennekens

Title: President & CEO

MMC/GATX PARTNERSHIP NO. 1

By: GATX Capital Corporation, as general partner

By: /s/ Patricia W. Leicher

Name: Patricia W. Leicher

Title: V.P.

SCHEDULES

1	Funding Certificate
2	Disclosure Schedule
3	Conditions Precedent

EXHIBITS

A	Form of Secured Promissory Note
B	Form of Warrant
C	Form of Opinion of Counsel
D	Form of Subordination Agreement

SCHEDULE 1

FUNDING CERTIFICATE

The undersigned, being the duly elected and acting _____ of DIGIRAD CORPORATION, a Delaware corporation ("Borrower"), does hereby certify to the Lender (as defined in the Loan Agreement defined below) in connection with that certain Loan and Security Agreement dated as of October __, 1999, among Borrower and Lender (the "Loan Agreement"; with other capitalized terms used below having the meanings ascribed thereto in the Loan Agreement) that:

1. The representations and warranties made by Borrower in ARTICLE III of the Loan Agreement and in the other Operative Documents are true and correct as of the date hereof.

2. No event or condition has occurred and is continuing that would constitute a Default or an Event of Default under the Loan Agreement or any other Operative Document.

3. Borrower is in compliance with the covenants and requirements contained in ARTICLES IV, V, VI AND VII of the Loan Agreement.

4. All conditions referred to in ARTICLE VIII of the Loan Agreement to the making of the Loan to be made on or about the date hereof have been satisfied.

5. No material adverse change in the general affairs, management, results of operations, condition (financial or otherwise) or prospects of Borrower, whether or not arising from transactions in the ordinary course of business, has occurred.

Dated: _____, 199__

DIGIRAD CORPORATION

By:

Name:

Title:

SCHEDULE 2
DISCLOSURE SCHEDULE

N/A

SCHEDULE 3
CONDITIONS PRECEDENT

PART I:

At the time of execution and delivery of this Agreement, there shall also have been duly executed and delivered to Lender:

(a) The Warrants executed in favor of Lender and Persons specified by Lender which are exercisable for 197,628 shares of Borrower's preferred stock;

(b) A favorable opinion of counsel for Borrower, dated as of the closing date, in the form attached hereto as EXHIBIT C or such other form or forms as Lender may accept;

(c) Copies, certified by the Secretary, Assistant Secretary or Chief Financial Officer of Borrower as of the closing date, of Borrower's charter documents and bylaws and of all documents evidencing corporate action taken by Borrower authorizing the execution, delivery and performance of the Operative Documents to which Borrower is a party, in form and substance

satisfactory to Lender and its counsel;

(d) Good standing certificate from Borrower's state of incorporation and the state in which Borrower's principal place of business is located, together with certificates of the applicable governmental authorities that Borrower is in compliance with the franchise tax laws of each such state, each dated as of a recent date;

(e) Evidence of the insurance coverage required by SECTION 6.01(d) of this Agreement;

(f) All necessary consents of shareholders and other third parties with respect to the execution, delivery and performance of this Agreement, the Warrants, the Notes and the other Operative Documents;

(g) Form UCC-1 Financing Statements, duly executed by Borrower, or other documents, and Borrower shall have taken such actions, if any, as Lender shall reasonably determine are necessary or desirable to perfect and protect its security interest in the Collateral;

(h) Notices of Security Interest to Depository Banks in the forms provided by Lender;

(i) A pledged collateral account control agreement, in the form provided by Lender; and

(j) All other documents as Lender shall have reasonably requested.

PART II

On or prior to the Funding Date of the Loans, each of the items set forth in PART I OF THIS SCHEDULE 3 shall have been delivered to such Lender and the following conditions shall have been satisfied or waived by such Lender:

(a) Borrower shall have provided to Lender such documents, instruments and agreements as Lender shall reasonably request to evidence the perfection and priority of the security interests granted to Lender pursuant to ARTICLE V;

(b) No Event of Default or Default shall have occurred and be continuing;

(c) Borrower shall have duly executed and delivered to each Lender a Note in the amount of such Lender's Loan;

(d) In Lender's sole discretion, there shall not have occurred any material adverse change in the general affairs, management, results of operations, condition (financial or otherwise) or prospects of Borrower, whether or not arising from transactions in the ordinary course of business, and there shall not have occurred since the date first written on the cover page of this Agreement any material adverse deviation by Borrower from the business plan of Borrower presented to and not disapproved by Lender;

(e) The representations and warranties contained in this Agreement and the other Operative Documents to which Borrower is a party shall be true and correct in all material respects as if made on such Funding Date;

(f) Each of the Operative Documents remains in full force and effect;

(g) Prior to the funding of the Second Loan, Borrower shall have provided evidence to Lender, satisfactory to Lender, that Borrower has successfully consummated an equity financing or bridge loan or such other financing as Lender deems acceptable with the net proceeds received by Borrower of such financing equaling or exceeding Four Million Dollars ($4,000,000); and

(h) The Funding Date of the Loans shall not be later than the respective Commitment Termination Dates; and the Funding Date of the Second Loan shall not be prior to March 31, 2000.

EXHIBIT A

SECURED PROMISSORY NOTE

$_____ Dated: [Date]

FOR VALUE RECEIVED, the undersigned, DIGIRAD CORPORATION, a Delaware corporation ("BORROWER"), HEREBY PROMISES TO PAY to the order of MMC/GATX PARTNERSHIP NO. I ("LENDER") the principal amount of _____ Million Dollars ($___000,000) or such lesser amount as shall equal the outstanding principal balance of the Loan made to Borrower by Lender pursuant to the Loan and Security Agreement referred to below (the "LOAN AGREEMENT"), and to pay all other amounts due with respect to the Loan on the dates and in the amounts set forth in the Loan Agreement.

Interest on the principal amount of this Note from the date of this Note shall accrue at the Loan Rate or, if applicable, the Default Rate. The Loan Rate for this Note is _____% per annum based on a year of twelve 30-day months. If the Funding Date of this Loan is not the first day of the month, Borrower shall make a payment of accrued interest on the outstanding principal amount of the Loan on [insert first Payment Date]. Commencing on _____, 199__, and continuing on the first day of each subsequent month (each, a "PAYMENT DATE"), Borrower shall make to Lender thirty-six (36) equal payments of principal plus accrued interest on the then outstanding principal amount in the amount of $_____.

Principal, interest and all other amounts due with respect to the Loan, are payable in lawful money of the United States of America to Lender by wire transfer according to the wire transfer instructions set forth in the Loan Agreement. The principal amount of this Note and the interest rate applicable thereto, and all payments made with respect thereto, shall be recorded by Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Loan and Security Agreement, dated as of October __, 1999, to which Borrower and Lender are parties. The Loan Agreement, among other things, (a) provides for the making of a secured Loan to Borrower, and (b) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

This Note may be not be prepaid except as set forth in Section 2.01(d) of the Loan Agreement.

This Note and the obligation of Borrower to repay the unpaid principal amount of the Loan, plus the Applicable Premium, interest on the Loan and all other amounts due Lender under the Loan Agreement is secured under the Loan Agreement.

Presentment for payment, demand, notice of protest and all other demands and notices of any kind in connection with the execution, delivery, performance and enforcement of this Note are hereby waived.

Borrower shall pay all reasonable fees and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred by Lender in the enforcement or attempt to enforce any of Borrower's obligations hereunder not performed when due. This Note shall be governed by, and construed and interpreted in accordance with, the laws of the State of California.

IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed by one of its officers thereunto duly authorized on the date hereof.

DIGIRAD CORPORATION

By: ----------

Name: ----------

Title: ----------

LOAN INTEREST RATE AND PAYMENTS OF PRINCIPAL

PRINCIPAL SCHEDULED DATE	AMOUNT	INTEREST RATE	PAYMENT AMOUNT	NOTATION BY

EXHIBIT B
FORM OF WARRANT

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR ANY STATE SECURITIES LAWS. NO SALE OR DISPOSITION MAY BE EFFECTED WITHOUT (i) EFFECTIVE REGISTRATION STATEMENTS RELATED THERETO, (ii) AN OPINION OF COUNSEL OR OTHER EVIDENCE, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATIONS ARE NOT REQUIRED, (iii) RECEIPT OF NO-ACTION LETTERS FROM THE APPROPRIATE GOVERNMENTAL AUTHORITIES, OR (iv) OTHERWISE COMPLYING WITH THE PROVISIONS OF SECTION 7 OF THIS WARRANT.

DIGIRAD CORPORATION

WARRANT TO PURCHASE SHARES
OF SERIES E PREFERRED STOCK

THIS CERTIFIES THAT, for value received, [MEIER MITCHELL & COMPANY/PRIORITY CAPITAL] and its assignees are entitled to subscribe for and purchase [172,925/24,703] shares of the fully paid and nonassessable Series E Preferred Stock (as adjusted pursuant to Section 4 hereof, the "Shares") of DIGIRAD CORPORATION, a Delaware corporation (the "Company"), at the price of $3.036 per share (such price and such other price as shall result, from time to time, from the adjustments specified in Section 4 hereof is herein referred to as the "Warrant Price"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used herein, (a) the term "Series Preferred" shall mean the Company's presently authorized Series E Preferred Stock, and any stock into or for which such Series E Preferred Stock may hereafter be converted or exchanged, and after the automatic conversion of the Series E Preferred Stock to Common Stock shall mean the Company's Common Stock, (b) the term "Date of Grant" shall mean October __, 1999, and (c) the term "Other Warrants" shall mean any other warrants issued by the Company in connection with the transaction with respect to which this Warrant was issued, the Loan and Security Agreement dated as of October __ 1999 (the "Loan Agreement") between the Company and the lender named therein, and any warrant issued upon transfer or partial exercise of or in lieu of this Warrant. The term "Warrant" as used herein shall be deemed to include Other Warrants unless the context clearly requires otherwise.

If the Company is eligible under the Loan Agreement and requests Lender to fund the Second Loan pursuant to the terms of the Loan Agreement, but Lender elects not to fund the Second Loan, the number of shares of the fully paid and nonassessable Series E Preferred Stock the holder is entitled to subscribe for and purchase as set forth above shall be reduced from [172,925/24,703] to [115,283/16,469). The terms "Lender" and "Second Loan" shall have the meaning

given these capitalized terms in the Loan Agreement.

1. TERM. The purchase right represented by this Warrant is exercisable, in whole or in part, at any time and from time to time from the Date of Grant through the later of (i) seven (7) years after the Date of Grant or (ii) five (5) years after the closing of the Company's initial public offering of its Common Stock ("IPO") effected pursuant to a Registration Statement on Form S-1 (or its successor) filed under the Securities Act of 1933, as amended (the "Act").

2. METHOD OF EXERCISE; PAYMENT; ISSUANCE OF NEW WARRANT. Subject to Section 1 hereof, the purchase right represented by this Warrant may be exercised by the holder hereof, in whole or in part and from time to time, at the election of the holder hereof, by (a) the surrender of this Warrant (with the notice of exercise substantially in the form attached hereto as Exhibit A-1 duly completed and executed) at the principal office of the Company and by the payment to the Company, by certified or bank check, or by wire transfer to an account designated by the Company (a "Wire Transfer") of an amount equal to the then applicable Warrant Price multiplied by the number of Shares then being purchased; (b) if in connection with a registered public offering of the Company's securities, the surrender of this Warrant (with the notice of exercise form attached hereto as Exhibit A-2 duly completed and executed) at the principal office of the Company together with notice of arrangements reasonably satisfactory to the Company for payment to the Company either by certified or bank check or by Wire Transfer from the proceeds of the sale of shares to be sold by the holder in such public offering of an amount equal to the then applicable Warrant Price per share multiplied by the number of Shares then being purchased; or (c) exercise of the "net issuance" right provided for in Section 10.2 hereof. The person or persons in whose name(s) any certificate(s) representing shares of Series Preferred shall be issuable upon exercise of this Warrant shall be deemed to have become the holder(s) of record of, and shall be treated for all purposes as the record holder(s) of, the shares represented thereby (and such shares shall be deemed to have been issued) immediately prior to the close of business on the date or dates upon which this Warrant is exercised. In the event of any exercise of the rights represented by this Warrant, certificates for the shares of stock so purchased shall be delivered to the holder hereof as soon as possible and in any event within thirty (30) days after such exercise and, unless this Warrant has been fully exercised or expired, a new Warrant representing the portion of the Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be issued to the holder hereof as soon as possible and in any event within such thirty-day period; provided, however, at such time as the Company is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, if requested by the holder of this Warrant, the Company shall cause its transfer agent to deliver the certificate representing Shares issued upon exercise of this Warrant to a broker or other person (as directed by the holder exercising this Warrant) within the time period required to settle any trade made by the holder after exercise of this Warrant.

3. STOCK FULLY PAID; RESERVATION OF SHARES. All Shares that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance pursuant to the terms and conditions herein, be fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issue thereof. During the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved for the purpose of the issue upon exercise of the purchase rights evidenced by this Warrant, a sufficient number of shares of its Series Preferred to provide for the exercise of the rights represented by this Warrant and a sufficient number of shares of its Common Stock to provide for the conversion of the Series Preferred into Common Stock.

4. ADJUSTMENT OF WARRANT PRICE AND NUMBER OF SHARES. The number and kind of securities purchasable upon the exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

(a) RECLASSIFICATION OR MERGER. In case of any reclassification or change of securities of the class issuable upon exercise of this Warrant (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or in case of any merger of the Company with or into another corporation (other than a merger with another corporation in which the Company is the acquiring and the surviving corporation and which does not result in any reclassification or change of outstanding securities issuable upon exercise of this Warrant), or in case of any sale of all or substantially all of the assets of the Company, the Company, or such successor or purchasing corporation, as the case maybe, shall duly execute and deliver to the holder of this Warrant a new

Warrant (in form and substance satisfactory to the holder of this Warrant), or the Company shall make appropriate provision without the issuance of a new Warrant, so that the holder of this Warrant shall have the right to receive, at a total purchase price not to exceed that payable upon the exercise of the unexercised portion of this Warrant, and in lieu of the shares of Series Preferred theretofore issuable upon exercise of this Warrant, (i) the kind and amount of shares of stock, other securities, money and property receivable upon such reclassification, change, merger or sale by a holder of the number of shares of Series Preferred then purchasable under this Warrant, or (ii) in the case of such a merger or sale in which the consideration paid consists all or in part of assets other than securities of the successor or purchasing corporation, at the option of the Holder of this Warrant, the securities of the successor or purchasing corporation having a value at the time of the transaction equivalent to the valuation of the Series Preferred at the time of the transaction. Any new Warrant shall provide for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4. The provisions of this subparagraph (a) shall similarly apply to successive reclassifications, changes, mergers and transfers.

(b) SUBDIVISION OR COMBINATION OF SHARES. If the Company at any time while this Warrant remains outstanding and unexpired shall subdivide or combine its outstanding shares of Series Preferred, the Warrant Price shall be proportionately decreased and the number of Shares issuable hereunder shall be proportionately increased in the case of a subdivision and the Warrant Price shall be proportionately increased and the number of Shares issuable hereunder shall be proportionately decreased in the case of a combination.

(c) STOCK DIVIDENDS AND OTHER DISTRIBUTIONS. If the Company at any time while this Warrant is outstanding and unexpired shall (i) pay a dividend with respect to Series Preferred payable in Series Preferred, then the Warrant Price shall be adjusted, from and after the date of determination of shareholders entitled to receive such dividend or distribution, to that price determined by multiplying the Warrant Price in effect immediately prior to such date of determination by a fraction (A) the numerator of which shall be the total number of shares of Series Preferred outstanding immediately prior to such dividend or distribution, and (B) the denominator of which shall be the total number of shares of Series Preferred outstanding immediately after such dividend or distribution; or (ii) make any other distribution with respect to Series Preferred (except any distribution specifically provided for in Sections 4(a) and 4(b)), then, in each such case, provision shall be made by the Company such that the holder of this Warrant shall receive upon exercise of this Warrant a proportionate share of any such dividend or distribution as though it were the holder of the Series Preferred (or Common Stock issuable upon conversion thereof) as of the record date fixed for the determination of the shareholders of the Company entitled to receive such dividend or distribution.

(d) ADJUSTMENT OF NUMBER OF SHARES. Upon each adjustment in the Warrant Price, the number of Shares of Series Preferred purchasable hereunder shall be adjusted, to the nearest whole share, to the product obtained by multiplying the number of Shares purchasable immediately prior to such adjustment in the Warrant Price by a fraction, the numerator of which shall be the Warrant Price immediately prior to such adjustment and the denominator of which shall be the Warrant Price immediately thereafter.

(e) ANTIDILUTION RIGHTS. The other antidilution rights applicable to the Shares of Series Preferred purchasable hereunder are set forth in the Company's Certificate of Incorporation, as amended through the Date of Grant, a true and complete copy of which is attached hereto as Exhibit B (the "Charter"). Such antidilution rights shall not be restated, amended, modified or waived in any manner that is adverse to the holder hereof without such holder's prior written consent. The Company shall promptly provide the holder hereof with any restatement, amendment, modification or waiver of the Charter promptly after the same has been made.

5. NOTICE OF ADJUSTMENTS. Whenever the Warrant Price or the number of Shares purchasable hereunder shall be adjusted pursuant to Section 4 hereof, the Company shall make a certificate signed by its chief financial officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Warrant Price and the number of Shares purchasable hereunder after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (without regard to Section 13 hereof, by first class mail, postage prepaid) to the holder of this Warrant. In addition, whenever the conversion price or conversion ratio of the Series Preferred shall be adjusted, the Company shall make a certificate signed by its chief financial officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the conversion price or ratio of the Series Preferred after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (without regard to Section 13 hereof, by first class mail, postage prepaid) to the holder of this Warrant.

6. FRACTIONAL SHARES. No fractional shares of Series Preferred will be issued in connection with any exercise hereunder, but in lieu of such fractional shares the Company shall make a cash payment therefor based on the fair market value of the Series Preferred on the date of exercise as reasonably determined in good faith by the Company's Board of Directors.

7. COMPLIANCE WITH ACT; DISPOSITION OF WARRANT OR SHARES OF SERIES PREFERRED.

(a) COMPLIANCE WITH ACT. The holder of this Warrant, by acceptance hereof, agrees that this Warrant, and the shares of Series Preferred to be issued upon exercise hereof and any Common Stock issued upon conversion thereof are being acquired for investment and that such holder will not offer, sell or otherwise dispose of this Warrant, or any shares of Series Preferred to be issued upon exercise hereof or any Common Stock issued upon conversion thereof except under circumstances which will not result in a violation of the Act or any applicable state securities laws.

Upon exercise of this Warrant, unless the Shares being acquired are registered under the Act and any applicable state securities laws or an exemption from such registration is available, the holder hereof shall confirm in writing that the shares of Series Preferred so purchased (and any shares of Common Stock issued upon conversion thereof) are being acquired for investment and not with a view toward distribution or resale in violation of the Act and shall confirm such other matters related thereto as may be reasonably requested by the Company. This Warrant and all shares of Series Preferred issued upon exercise of this Warrant and all shares of Common Stock issued upon conversion thereof (unless registered under the Act and any applicable state securities laws) shall be stamped or imprinted with a legend in substantially the following form:

"THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. NO SALE OR DISPOSITION MAY BE EFFECTED WITHOUT (i) EFFECTIVE REGISTRATION STATEMENTS RELATED THERETO, (ii) AN OPINION OF COUNSEL OR OTHER EVIDENCE, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATIONS ARE NOT REQUIRED, (iii) RECEIPT OF NO-ACTION LETTERS FROM THE APPROPRIATE GOVERNMENTAL AUTHORITIES, OR (iv) OTHERWISE COMPLYING WITH THE PROVISIONS OF SECTION 7 OF THE WARRANT UNDER WHICH THESE SECURITIES WERE ISSUED, DIRECTLY OR INDIRECTLY."

Said legend shall be removed by the Company, upon the request of a holder, at such time as the restrictions on the transfer of the applicable security shall have terminated. In addition, in connection with the issuance of this Warrant, the holder specifically represents to the Company by acceptance of this Warrant as follows:

(1) The holder is aware of the Company's business affairs and financial condition, and has acquired information about the Company sufficient to reach an informed and knowledgeable decision to acquire this Warrant. The holder is acquiring this Warrant for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof in violation of the Act. By executing this Warrant, the holder further represents as of the Date of Grant that the holder does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the Shares or this Warrant.

(2) The holder is a holder in securities of companies in the development stage and acknowledges that it is able to fend for itself, can bear the economic risk of its holding and has such knowledge ad experience in financial and business matters that it is capable of evaluating the merits and risks of the acquisition of this Warrant and the Shares.

(3) The holder understands that this Warrant has not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the holder's investment intent as expressed herein.

(4) The holder further understands that this Warrant must be held indefinitely unless subsequently registered under the Act and qualified under any applicable state securities laws, or unless exemptions from registration and qualification are otherwise available. The holder is aware of the provisions of Rule 144, promulgated under the Act.

(5) The holder is an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated under the Act.

(b) DISPOSITION OF WARRANT OR SHARES. With respect to any offer, sale or other disposition of this Warrant or any shares of Series Preferred acquired pursuant to the exercise of this Warrant prior to registration of such Warrant or shares, the holder hereof agrees to give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of such holder's counsel, or other evidence, if reasonably satisfactory to the Company, to the effect that such offer, sale or other disposition may be effected without registration or qualification (under the Act as then in effect or any federal or state securities law then in effect) of this Warrant or such shares of Series Preferred or Common Stock and indicating whether or not under the Act certificates for this Warrant or such shares of Series Preferred to be sold or otherwise disposed of require any restrictive legend as to applicable restrictions on transferability in order to ensure compliance with such law. Upon receiving such written notice and reasonably satisfactory opinion or other evidence, the Company, as promptly as practicable but no later than fifteen (15) days after receipt of the written notice, shall notify such holder that such holder may sell or otherwise dispose of this Warrant or such shares of Series Preferred or Common Stock, all in accordance with the terms of the notice delivered to the Company. If a determination has been made pursuant to this Section 7(b) that the opinion of counsel for the holder or other evidence is not reasonably satisfactory to the Company, the Company shall so notify the holder promptly with details thereof after such determination has been made. Notwithstanding the foregoing, this Warrant or such shares of Series Preferred or Common Stock may, as to such federal laws, be offered, sold or otherwise disposed of in accordance with Rule 144 or 144A under the Act, provided that the Company shall have been furnished with such information as the Company may reasonably request to provide a reasonable assurance that the provisions of Rule 144 or 144A have been satisfied. Each certificate representing this Warrant or the shares of Series Preferred thus transferred (except a transfer pursuant to Rule 144 or 144A) shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with such laws, unless in the aforesaid opinion of counsel for the holder, such legend is not required in order to ensure compliance with such laws. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

(c) APPLICABILITY OF RESTRICTIONS. Neither any restrictions of any legend described in this Warrant nor the requirements of Section 7(b) above shall apply to any transfer of, or grant of a security interest in, this Warrant (or the Series Preferred or Common Stock obtainable upon exercise thereof) or any part hereof (i) to a partner of the holder if the holder is a partnership or to a member of the holder if the holder is a limited liability company, (ii) to a partnership of which the holder is a partner or to a limited liability company of which the holder is a member, or (iii) to any affiliate of the holder if the holder is a corporation; PROVIDED,

HOWEVER, in any such transfer, if applicable, the transferee shall on the Company's request agree in writing to be bound by the terms of this Warrant as if an original holder hereof.

8. RIGHTS AS SHAREHOLDERS; INFORMATION. No holder of this Warrant, as such, shall be entitled to vote or receive dividends or be deemed the holder of Series Preferred or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the holder of this Warrant, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until this Warrant shall have been exercised and the Shares purchasable upon the exercise hereof shall have become deliverable, as provided herein. Notwithstanding the foregoing, the Company will transmit to the holder of this Warrant such information, documents and reports as are generally distributed to the holders of any class or series of the securities of the Company concurrently with the distribution thereof to the shareholders.

9. MARKET STAND-OFF AGREEMENT. During the time period not to exceed 180 days specified by the Company and an underwriter of securities of the Company, following the effective date of a registration statement of the Company filed under the Act (the "Lock-up"), the holder shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to transferees or donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Common Stock included in such registration; PROVIDED, HOWEVER, that this Section 9 shall be applicable (a) only to the first such registration statement of the Company pursuant to which Common Stock (or other securities) of the Company are to be sold on its behalf to the public in an underwritten offering, and (b) only if all officers and directors of the Company enter into similar agreements, and (c) such

underwriters certify to the holder of this Warrant in writing that (1) they have determined that the holder must be so bound during the Lock-up or it would have a material negative impact on the offering, and (2) all other holders of warrants of the Company have agreed to be similarly restricted. In order to enforce the foregoing covenant, the Company may impose stop-transfer restrictions with respect to the Shares of the holder (and the shares or securities of every person subject to the foregoing restriction) until the end of such period

10. ADDITIONAL RIGHTS.

10.1 ACQUISITION TRANSACTIONS. The Company shall provide the holder of this Warrant with at least twenty (20) days' written notice prior to closing thereof of the terms and conditions of any of the following transactions (to the extent the Company has notice thereof): (i) the sale, lease, exchange, conveyance or other disposition of all or substantially all of the Company's property or business, or (ii) its merger into or consolidation with any other corporation (other than a wholly-owned subsidiary of the Company), or any transaction (including a merger or other reorganization) or series of related transactions, in which more than 50% of the voting power of the Company is disposed of.

10.2 RIGHT TO CONVERT WARRANT INTO STOCK: NET ISSUANCE.

(a) RIGHT TO CONVERT. In addition to and without limiting the rights of the holder under the terms of this Warrant, the holder shall have the right to convert this Warrant or any portion thereof (the "Conversion Right") into shares of Series Preferred (or Common Stock if the Series Preferred has been automatically converted into Common Stock) as provided in this Section 10.2 at any time or from time to time during the term of this Warrant. Upon exercise of the Conversion Right with respect to a particular number of shares subject to this Warrant (the "Converted Warrant Shares"), the Company shall deliver to the holder (without payment by the holder of any exercise price or any cash or other consideration) that number of shares of fully paid and nonassessable Series Preferred (or Common Stock if the Series Preferred has been automatically converted into Common Stock) as is determined according to the following formula:

$$X = \frac{B - A}{Y}$$

Where:

X = the number of shares of Series Preferred (or Common Stock if the Series Preferred has been automatically converted to Common Stock) that shall be issued to holder

Y = the fair market value of one share of Series Preferred (or Common Stock if the Series Preferred has been automatically converted to Common Stock)

A = the aggregate Warrant Price of the specified number of Converted Warrant Shares immediately prior to the exercise of the Conversion Right (i.e., the number of Converted Warrant Shares multiplied by the Warrant Price)

B = the aggregate fair market value of the specified number of Converted Warrant Shares (i.e., the number of Converted Warrant Shares MULTIPLIED BY the fair market value of one Converted Warrant Share)

No fractional shares shall be issuable upon exercise of the Conversion Right, and, if the number of shares to be issued determined in accordance with the foregoing formula is other than a whole number, the Company shall pay to the holder an amount in cash equal to the fair market value of the resulting fractional share on the Conversion Date (as hereinafter defined). For purposes of Section 9 of this Warrant, shares issued pursuant to the Conversion Right shall be treated as if they were issued upon the exercise of this Warrant.

(b) METHOD OF EXERCISE. The Conversion Right may be exercised by the holder by the surrender of this Warrant at the principal office of the Company together with a written statement (which may be in the form of Exhibit A-1 or Exhibit A-2 hereto) specifying that the holder thereby intends to exercise the Conversion Right and indicating the number of shares subject to this Warrant which are being surrendered (referred to in Section 10.2(a) hereof as the Converted Warrant Shares) in exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written

statement, or on such later date as is specified therein (the "Conversion Date"), and, at the election of the holder hereof, may be made contingent upon the closing of the sale of the Company's Common Stock to the public in a public offering pursuant to a Registration Statement under the Act (a "Public Offering"). Certificates for the shares issuable upon exercise of the Conversion Right and, if applicable, a new warrant evidencing the balance of the shares remaining subject to this Warrant, shall be issued as of the Conversion Date and shall be delivered to the holder within thirty (30) days following the Conversion Date.

(c) DETERMINATION OF FAIR MARKET VALUE. For purposes of this Section 10.2, "fair market value" of a share of Series Preferred (or Common Stock if the Series Preferred has been automatically converted into Common Stock) as of a particular date (the "Determination Date") shall mean:

(i) If the Conversion Right is exercised in connection with and contingent upon a Public Offering, and if the Company's Registration Statement relating to such Public Offering ("Registration Statement") has been declared effective by the Securities and Exchange Commission, then the initial "Price to Public" specified in the final prospectus with respect to such offering.

(ii) If the Conversion Right is not exercised in connection with and contingent upon a Public Offering, then as follows:

(A) If traded on a securities exchange, the fair market value of the Common Stock shall be deemed to be the average of the closing prices of the Common Stock on such exchange over the 30-day period ending five business days prior to the Determination Date, and the fair market value of the Series Preferred shall be deemed to be such fair market value of the Common Stock multiplied by the number of shares of Common Stock into which each share of Series Preferred is then convertible;

(B) If traded on the Nasdaq Stock Market or other over-the-counter system, the fair market value of the Common Stock shall be deemed to be the average of the closing bid prices of the Common Stock over the 30-day period ending five business days prior to the Determination Date, and the fair market value of the Series Preferred shall be deemed to be such fair market value of the Common Stock multiplied by the number of shares of Common Stock into which each share of Series Preferred is then convertible; and

(C) If there is no public market for the Common Stock, then fair market value shall be determined by the Board of Directors of the Company acting in good faith.

10.3 EXERCISE PRIOR TO EXPIRATION. To the extent this Warrant is not previously exercised as to all of the Shares subject hereto, and if the fair market value of one share of the Series Preferred is greater than the Warrant Price then in effect, this Warrant shall be deemed automatically exercised pursuant to Section 10.2 above (even if not surrendered) immediately before its expiration. For purposes of such automatic exercise, the fair market value of one share of the Series Preferred upon such expiration shall be determined pursuant to Section 10.2(c). To the extent this Warrant or any portion thereof is deemed automatically exercised pursuant to this

Section 10.3, the Company agrees to promptly notify the holder hereof of the number of Shares, if any, the holder hereof is to receive by reason of such automatic exercise.

11. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to the holder of this Warrant as follows:

(a) This Warrant has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and the rules of law or principles at equity governing specific performance, injunctive relief and other equitable remedies;

(b) The Shares have been duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable;

(c) The rights, preferences, privileges and restrictions granted to or imposed upon the Series Preferred and the holders thereof are as set forth in the Charter, and on the Date of Grant, each share of the Series Preferred represented by this Warrant is convertible into one share of Common

Stock;

(d) The shares of Common Stock issuable upon conversion of the Shares have been duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms of the Charter will be validly issued, hilly paid and nonassessable;

(e) The execution and delivery of this Warrant are not, and the issuance of the Shares upon exercise of this Warrant in accordance with the terms hereof will not be, inconsistent with the Company's Charter or by-laws, do not and will not contravene any law, governmental rule or regulation, judgment or order applicable to the Company, and do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or require the consent or approval of, the giving of notice to, the registration or filing with or the taking of any action in respect of or by, any Federal, state or local government authority or agency or other person, except for the filing of notices pursuant to federal and state securities laws, which filings will be effected by the time required thereby; and

(f) There are no actions, suits, audits, investigations or proceedings pending or, to the knowledge of the Company, threatened against the Company in any court or before any governmental commission, board or authority which, if adversely determined, will have a material adverse effect on the ability of the Company to perform its obligations under this Warrant.

(g) The number of shares of Common Stock of the Company outstanding on the date hereof, on a fully diluted basis (assuming the conversion of all outstanding convertible securities and the exercise of all outstanding options and warrants), does not exceed [_____] shares.

12. MODIFICATION AND WAIVER. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

13. NOTICES. Any notice, request, communication or other document required or permitted to be given or delivered to the holder hereof or the Company shall be delivered, or shall be sent by certified or registered mail, postage prepaid, to each such holder at its address as shown on the books of the Company or to the Company at the address indicated therefor on the signature page of this Warrant.

14. BINDING EFFECT ON SUCCESSORS. This Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company relating to the Series Preferred issuable upon the exercise or conversion of this Warrant shall survive the exercise, conversion and termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the holder hereof.

15. LOST WARRANTS OR STOCK CERTIFICATES. The Company covenants to the holder hereof that, upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant or any stock certificate and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant or stock certificate, the Company will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

16. DESCRIPTIVE HEADINGS. The descriptive headings of the several paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. The language in this Warrant shall be construed as to its fair meaning without regard to which parry drafted this Warrant.

17. GOVERNING LAW. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California (without giving effect to principles of conflicts of laws).

18. SURVIVAL OF REPRESENTATIONS, WARRANTIES AND AGREEMENTS. All representations and warranties of the Company and the holder hereof contained herein shall survive the Date of Grant, the exercise or conversion of this Warrant (or any part hereof) or the termination or expiration of rights hereunder. All agreements of the Company and the holder hereof contained herein shall survive indefinitely until, by their respective terms, they are no longer operative.

19. REMEDIES. In case any one or more of the covenants and agreements contained in this Warrant shall have been breached, the holders hereof (in the case of a breach by the Company), or the Company (in the case of a breach by a holder), may proceed to protect and enforce their or its rights either by suit in equity and/or by action at law, including, but not

limited to, an action for damages as a result of any such breach and/or an action for specific performance of any such covenant or agreement contained in this Warrant.

20. NO IMPAIRMENT OF RIGHTS. The Company will not, by amendment of its Charter or through any other means, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment.

21. SEVERABILITY. The invalidity or unenforceability of any provision of this Warrant in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction, or affect any other provision of this Warrant, which shall remain in full force and effect.

22. RECOVERY OF LITIGATION COSTS. If any legal action or other proceeding is brought for the enforcement of this Warrant, or because of an alleged dispute, breach, default, or misrepresentation in connection with any of the provisions of this Warrant, the successful or prevailing party or parties shall be entitled to recover reasonable attorneys' fees and other costs incurred in that action or proceeding, in addition to any other relief to which it or they may be entitled.

23. ENTIRE AGREEMENT; MODIFICATION. This Warrant constitutes the entire agreement between the parties pertaining to the subject matter contained in it and supersedes all prior and contemporaneous agreements, representations, and undertakings of the parties, whether oral or written, with respect to such subject matter.

The Company has caused this Warrant to be duly executed and delivered as of the Date of Grant specified above.

DIGIRAD CORPORATION

By

Title

Address: 9350 Trade Place
San Diego, CA 92121

MEIER MITCHELL & COMPANY

By

Title

Address: 4 Orinday Way, Suite 200B
Orinda, CA 94563

EXHIBIT A-1

NOTICE OF EXERCISE

To: DIGIRAD CORPORATION (the "Company")

1. The undersigned hereby:

/ / elects to purchase_____ shares of [Series Preferred Stock] [Common Stock] of the Company pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full, or

/ / elects to exercise its net issuance rights pursuant to Section 10.2 of the attached Warrant with respect to _____ Shares of [Series Preferred Stock] [Common Stock].

2. Please issue a certificate or certificates representing _____ shares in the name of the undersigned or in such other name or names as are specified below:

(Name)

(Address)

3. The undersigned represents that the aforesaid shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares, all except as in compliance with applicable securities laws.

(Signature)

(Date)

EXHIBIT A-2

NOTICE OF EXERCISE

To: DIGIRAD CORPORATION (the "Company")

1. Contingent upon and effective immediately prior to the closing (the "Closing") of the Company's public offering contemplated by the Registration Statement on Form S___, filed _____, 19___, the undersigned hereby:

/ / elects to purchase _____ shares of [Series Preferred Stock] [Common Stock] of the Company (or such lesser number of shares as may be sold on behalf of the undersigned at the Closing) pursuant to the terms of the attached Warrant, or

/ / elects to exercise its net issuance rights pursuant to Section 10.2 of the attached Warrant with respect to _____ Shares of [Series Preferred Stock] [Common Stock].

2. Please deliver to the custodian for the selling shareholders a stock certificate representing such _____ shares.

3. The undersigned has instructed the custodian for the selling shareholders to deliver to the Company $_____or, if less, the net proceeds due the undersigned from the sale of shares in the aforesaid public offering. If such net proceeds are less than the purchase price for such shares, the undersigned agrees to deliver the difference to the Company prior to the Closing.

(Signature)

(Date)

EXHIBIT B
CHARTER

CERTIFICATE OF AMENDMENT TO
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF DIGIRAD CORPORATION,
a Delaware Corporation

Digirad Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"),

DOES HEREBY CERTIFY:

FIRST: That resolutions were duly adopted by the Board of Directors of the Corporation setting forth a proposed amendment to the existing Amended and Restated Certificate of Incorporation of the Corporation, and declaring said amendment to be advisable and recommended for approval by the stockholders of the Corporation. The resolutions setting forth the proposed amendment are as follows:

RESOLVED, FURTHER, that Paragraph A and Paragraph B, Section 1 of ARTICLE IV of the Amended and Restated Certificate of Incorporation of this Corporation is hereby amended to read in its entirety as follows:

A. CLASSES OF STOCK. This Corporation is authorized to issue two (2) classes of shares, to be designated "Common" and "Preferred" and referred to herein as the "Common Stock" or the "Preferred Stock" respectively. The total number of shares of Common Stock the Corporation is authorized to issue is Twenty-Seven Million (27,000,000). The par value is $0.001 per share. The total number of shares of Preferred Stock the Corporation is authorized to issue is Eighteen Million Six Hundred Ninety Thousand Eight Hundred Thirty-Nine (18,690,839). The par value is $0.001 per share.

The Board of Directors of the Corporation may divide the Preferred Stock into any number of series. The Board of Directors shall fix the designation and number of shares of each such series. The Board of Directors may determine and alter the rights, preferences, privileges and restrictions granted to and imposed upon any wholly unissued series of the Preferred Stock. The Board of Directors (within the limits and restrictions of any resolution adopted by it, originally fixing the number of shares of any series) may increase or decrease the number of shares of any such series after the issue of shares of that series, but not below the number of then outstanding shares of such series.

B. Rights, Preferences, Privileges and Restrictions of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

1. Designation of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

Two Million Two Hundred Fifty Thousand (2,250,000) shares of Preferred Stock are designated Series A Preferred Stock (the "Series A Preferred Stock") with the rights, preferences and privileges specified herein. Two Million Two Hundred Eighty-One Thousand (2,281,000) shares of Preferred Stock are designated Series B Preferred Stock (the "Series B Preferred Stock") with the rights, preferences and privileges specified herein. Four Million Eight Hundred Thousand (4,800,000) shares of Preferred Stock are designated Series C Preferred Stock (the "Series C Preferred Stock") with the rights, preferences and privileges specified herein. Eight Million Six Hundred Sixty-Eight Thousand One Hundred Forty

(8,668,140) shares of Preferred Stock are designated Series D Preferred Stock (the "Series D Preferred Stock"). Six Hundred Ninety-One Thousand Six Hundred Ninety-Nine (691,699) shares of Preferred Stock are designated Series E Preferred Stock (the "Series E Preferred Stock"). As used in this Article IV, Division B, the term "Preferred Stock" shall refer to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock."

SECOND: That, thereafter, the stockholders of said Corporation approved the amended by written consent in accordance with Section 228 of the Delaware General Corporation Law.

THIRD: That said amendment was duly approved in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

FOURTH: That the capital of said Corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, Digirad Corporation, has caused this certificate to be signed by Scott Huennekens, its President, on this 27th day of October, 1999.

/s/ Scott Huennekens

Scott Huennekens, President

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF DIGIRAD CORPORATION

Digirad Corporation, a corporation organized and existing under the laws of the state of Delaware, hereby certifies as follows:

1. The name of the corporation is Digirad Corporation. The date the Corporation filed its original Certificate of Incorporation with the Secretary of State was January 2, 1997.

2. This Amended and Restated Certificate of Incorporation restates and amends the provisions of the original Certificate of Incorporation of this Corporation as heretofore in effect and was duly adopted by the Corporation's Board of Directors in accordance with Sections 241 and 245 of the General Corporation Law of the State of Delaware.

3. The text of the Certificate of Incorporation is hereby amended and restated to read as herein set forth in full:

ARTICLE I

The name of the Corporation (hereinafter called "Corporation") is Digirad Corporation.

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is 30 Old Rudnick Lane, City of Dover, County of Kent 19901, and the name of the registered agent of the Corporation in the State of Delaware at such address is CorpAmerica, Inc.

ARTICLE III

The purpose of this Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

A. CLASSES OF STOCK. This Corporation is authorized to issue two

(2) classes of shares, to be designated "Common" and "Preferred" and referred to herein as the "Common Stock" or the "Preferred Stock" respectively. The total number of shares of Common Stock the Corporation is authorized to issue is twenty-five million four hundred ninety-four thousand seventy-one (25,494,071). The par value is $0.001 per share. The total number of shares of Preferred Stock the Corporation is authorized to issue is eighteen million four hundred ninety-three thousand two hundred eleven (18,493,211). The par value is $0.001 per share.

The Board of Directors of the Corporation may divide the Preferred Stock into any number of series. The Board of Directors shall fix the designation and number of shares of each such series. The Board of Directors may determine and alter the rights, preferences, privileges and restrictions granted to and imposed upon any wholly unissued series of the Preferred Stock. The Board of Directors (within the limits and restrictions of any resolution adopted by it, originally fixing the number of shares of any series) may increase or decrease the number of shares of any such series after the issue of shares of that series, but not below the number of then outstanding shares of such series.

B. Rights, Preferences, Privileges and Restrictions of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

1. Designation of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

Two Million Two Hundred Fifty Thousand (2,250,000) shares of Preferred Stock are designated Series A Preferred Stock (the "Series A Preferred Stock") with the rights, preferences and privileges specified herein. Two Million Two Hundred Eighty-One Thousand (2,281,000) shares of Preferred Stock are designated Series B Preferred Stock (the "Series B Preferred Stock") with the rights, preferences and privileges specified herein. Four Million Eight Hundred Thousand (4,800,000) shares of Preferred Stock are designated Series C Preferred Stock (the "Series C Preferred Stock") with the rights, preferences and privileges specified herein. Eight million six hundred sixty-eight thousand one hundred forty (8,668,140) shares of Preferred Stock are designated Series D Preferred Stock (the "Series D Preferred Stock"). Four hundred ninety-four thousand seventy-one (494,071) shares of Preferred Stock are designated Series E Preferred Stock (the "Series E Preferred Stock"). As used in this Article IV, Division B, the term "Preferred Stock" shall refer to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

2. DIVIDEND PROVISIONS.

The holders of shares of Preferred Stock shall be entitled to receive non-cumulative dividends, out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock of this Corporation) on the Common Stock or any other junior equity security of this Corporation, at the rate of $.10 per share of Series A Preferred Stock, $.11 per share of Series B Preferred Stock, $.125 per share of Series C Preferred Stock, $.23073 per share of Series D Preferred Stock and $.3036 per share of Series E Preferred Stock per annum plus an amount equal to that paid on outstanding shares of Common Stock of this Corporation, whenever funds are legally available therefor, payable quarterly when, as and if declared by the Board of Directors and shall be non-cumulative. Dividends, if declared, must be declared and paid with respect to all series of Preferred Stock contemporaneously, and if less than full dividends are declared, the same percentage of the dividend rate will be payable to each series of Preferred Stock.

3. LIQUIDATION PREFERENCE.

(a) In the event of any liquidation, dissolution or winding up of this Corporation, either voluntary or involuntary, the holders of Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of this Corporation to the holders of Common Stock or any other junior equity security by reason of their ownership thereof an amount for each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, respectively, held by such holder equal to the sum of (i) $1.00 for each such outstanding share of Series A Preferred Stock (the "Original Series A Issue Price"), (ii) $1.10 for each such outstanding share of Series B Preferred Stock (the "Original Series B Issue Price"), (iii) $1.25 for each such outstanding share of Series C Preferred Stock (the "Original Series C Issue Price"), (iv) $2.3073 for each outstanding share of Series D Preferred Stock (the "Original Series D Issue Price"), (v) $3.036 for each outstanding share of Series E

Preferred Stock (the "Original Series E Issue Price") and (vi) in each case, an amount equal to all declared but unpaid dividends on each such share. If upon the occurrence of such an event the assets and funds thus distributed among the holders of the Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of this Corporation legally available for distribution shall be distributed, ratably among the holders of the Preferred Stock in proportion to the product of the liquidation preference of each such share and the number of such shares owned by each such holder.

(b) Upon the completion of the distribution required by subsection 3(a) above, if assets remain in the Corporation, the holders of the Common Stock shall receive an amount equal to $.21 per share (adjusted to reflect any subsequent stock splits, stock dividends, or other recapitalizations) for each share of Common Stock held by them. If, upon the occurrence of such event, the assets and funds thus distributed among the holders of the Common Stock shall be insufficient to permit payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of this Corporation legally available for distribution (after giving effect to the distribution referred to in Section 3(a) hereof) shall be distributed ratably among the holders of the Common Stock in proportion to the amount of such stock owned by each such holder.

(c) After the distributions described in subsections 3(a) and (b) have been paid, the remaining assets of this Corporation available for distribution to stockholders shall be distributed among the holders of Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock held by each (assuming conversion of all such Preferred Stock).

4. REDEMPTION.

(a) The outstanding Preferred Stock shall be redeemable as provided in this Section 4. The Series A Redemption Price shall be the total amount equal to $1.00 per share of Series A Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date (as such term is hereinafter defined). The Series B Redemption Price shall be the total amount equal to $1.10 per share of Series B Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares

to the Redemption Date. The Series C Redemption Price shall be the total amount equal to $1.25 per share of Series C Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series D Redemption Price shall be the total amount equal to $2.3073 per share of Series D Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series E Redemption Price shall be the total amount equal to $3.036 per share of Series E Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date.

(b) On or at any time after July 31, 2004, upon the receipt by this Corporation from the holders of at least 66-2/3% of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class, of a written request for redemption hereunder of their respective shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (the "Redemption Request"), this Corporation shall, from any source of funds legally available therefor, redeem all of the shares of Preferred Stock by paying in cash therefor a sum equal to the Series A Redemption Price, the Series B Redemption Price, the Series C Redemption Price, the Series D Redemption Price and the Series E Redemption Price, respectively.

(c) (i) At least 15, but no more than 30, days prior to the date fixed for any redemption of the Preferred Stock (the "Redemption Date"), which Redemption Date shall be no later than 45 days following the Corporation's receipt of the Redemption Request, written notice shall be mailed, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock to be redeemed at the address last shown on the records of this Corporation for such holder or given by the holder to this Corporation for the purpose of notice or if no such address appears or is given, at the place where the principal executive office of this Corporation is located, notifying such holder of the redemption to be effected, specifying the number of shares to be redeemed from such holder, the Redemption Date, the Series A Redemption Price, the Series B Redemption Price, the Series C Redemption Price, the Series D Redemption Price or the Series E Redemption Price as the case may be, the place at which payment may be obtained and the date on which such holder's Conversion Rights (as

hereinafter defined) as to such shares, terminating and calling upon such holder to surrender to this Corporation, in the manner and at the place designated, such holder's certificate or certificates representing the shares to be redeemed (the "Redemption Notice"). Except as provided in subsection 4(c)(iii), on or after the Redemption Date, each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock to be redeemed shall surrender to this Corporation the certificate or certificates representing such shares, in the manner and at the place designated in the Redemption Notice, and thereupon the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, the Series D Redemption Price or the Series E Redemption Price, as the case may be, of such shares shall be payable, to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(ii) If the funds of the Corporation legally available for redemption of outstanding shares of Preferred Stock on any Redemption Date are insufficient to redeem the total number of shares of Preferred Stock to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such shares ratably among the holders of (A) first, such shares of Series B, Series C, Series D and Series E Preferred Stock to be redeemed, and (B) second, such shares of Series A Preferred Stock to be redeemed. The shares of Preferred Stock not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein. At any time thereafter when additional funds of this Corporation are legally available for the redemption of shares of Preferred Stock, such funds shall immediately be used to redeem the balance of the shares which this Corporation has become obligated to redeem on any Redemption Date but which it has not redeemed.

(iii) From and after the Redemption Date, unless there shall have been a default in payment of the applicable Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price or the Series E Redemption Price, all rights of the holders of such shares as holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (except the right to receive the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price or the Series E Redemption Price, without interest, upon surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of this Corporation or be deemed to be outstanding for any purpose whatsoever.

(iv) At least three days prior to the Redemption Date, this Corporation shall deposit the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price and Series E Redemption Price of all outstanding shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, designated for redemption in the Redemption Notice, and not yet redeemed or converted, with a bank or trust company having aggregate capital and surplus in excess of $50,000,000, as a trust fund for the benefit of the holders of the shares designated for redemption and not yet redeemed. Simultaneously, this Corporation shall deposit irrevocable instructions and authority to such bank or trust company to pay, on and after the Redemption Date or prior thereto, the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price and Series E Redemption Price, as the case may be, to the holders thereof upon surrender of their certificates. Any monies deposited by this Corporation pursuant to this subsection 4(c)(iv) for the redemption of shares which are thereafter converted into shares of Common Stock pursuant to Section 5 hereof no later than the close of business on the Redemption Date shall be returned to this Corporation forthwith upon such conversion. The balance of any monies deposited by this Corporation pursuant to this subsection 4(c)(iv) remaining unclaimed at the expiration of two years following the Redemption Date shall thereafter be returned to this Corporation, provided that the stockholder to which such monies would be payable hereunder shall be entitled, upon proof of its ownership of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, and payment of any bond requested by this Corporation, to receive such monies but without interest from the Redemption Date.

5. CONVERSION. The holders of Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) RIGHT TO CONVERT.

(i) Subject to subsection 5(c), each outstanding share of Preferred Stock shall be convertible, at the option of the holder thereof at any time after the date of issuance of such share (and on or prior to the fifth day prior to the Redemption Date, if any, as may have been fixed in any Redemption Notice), at the office of this Corporation or any transfer agent for such series of Preferred Stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the Original Series A Issue Price, the Original Series B Issue Price, the Original Series C Issue Price, the Original Series D Issue Price and the Original Series E Issue Price, respectively, by the Conversion Price at the time in effect for such series or shares of such series. The initial Conversion Price per share for shares of Preferred Stock shall be the Original Series A Issue Price, the Original Series B Issue Price, the Original Series C Issue Price, the Original Series D Issue Price and the Original Series E Issue Price, respectively, provided, however, that the Conversion Prices for the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock shall be subject to adjustment as set forth in subsection 5(c).

(ii) Each outstanding share of Preferred Stock shall automatically be converted into shares of Common Stock at the Conversion Price at the time in effect for such shares immediately upon:

(A) the closing of this Corporation's sale of its Common Stock in a bona fide, firm commitment underwritten public offering registered under the Securities Act of 1933, as amended (the "Securities Act"), which results in aggregate gross offering proceeds to this Corporation of at least $15,000,000, at a public offering price of not less than $7.50 per share (adjusted to reflect subsequent stock dividends, stock splits or recapitalizations) (a "Qualifying Public Offering"); or

(B) the approval of (i) holders of at least 75% of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting together as a single class and (ii) holders of not less than 60% of the Series D Preferred Stock voting as a class.

(b) MECHANICS OF CONVERSION. Before any holder of Preferred Stock shall be entitled to convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of this Corporation or of any transfer agent for such stock, and shall be given written notice by mail postage prepaid, to this Corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. This Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of such series of Preferred

Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. If the conversion is in connection with an underwritten offer of securities registered pursuant to the Securities Act, the conversion may, at the option of any holder tendering shares of such series of Preferred Stock for conversion, be conditioned upon the closing with the underwriter of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common Stock issuable upon such conversion of shares of such series of Preferred Stock shall not be deemed to have converted such shares of such series of Preferred Stock until immediately prior to the closing of such sale of securities.

(c) CONVERSION PRICE ADJUSTMENTS OF THE PREFERRED STOCK. The Conversion Prices of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be subject to adjustment from time to time as follows:

(i) (A) If this Corporation shall issue any Additional Stock (as defined below) without consideration or for a consideration per share less than the Conversion Price for shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock in effect immediately prior to the issuance of such Additional Stock, the new Conversion Price for such shares of such series of Preferred Stock shall be determined by multiplying the Conversion Price for such series of Preferred Stock in effect immediately prior to the

issuance of Additional Stock by a fraction:

(x) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of shares of Common Stock equivalents which the aggregate consideration received by this Corporation for the shares of such Additional Stock so issued would purchase at the Conversion Price in effect at the time for the shares of the series of Preferred Stock with respect to which the adjustment is being made; and

(y) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of such shares of Additional Stock so issued.

Any series of issuances of Additional Stock consisting of Common Stock or the same series of Preferred Stock, issued at the same price and within a six-month period, shall be treated as one issuance of Additional Stock for the purposes of this calculation.

(B) No adjustment of the Conversion Price for such series of Preferred Stock shall be made in an amount less than one cent per share, provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to three years from the date of the event giving rise to the adjustment being carried forward, or shall be made at the end of three years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in subsections 5(c)(i)(E)(3) and (c)(i)(E)(4), no adjustment of such Conversion Price for such series of Preferred Stock pursuant to this subsection 5(c)(i) shall have the effect of increasing the Conversion Price for such series of Preferred Stock above the Conversion Price for such series in effect immediately prior to such adjustment.

(C) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by this Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of the Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board of Directors irrespective of any accounting treatment.

(E) In the case of the issuance of options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities (which are not excluded from the definition of Additional Stock), the following provisions shall apply:

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections 5(c)(i)(C) and (c)(i)(D)), if any, received by the Corporation upon the issuance of such options or rights plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby.

(2) The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by this Corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be

received by this Corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subsections 5(c)(i)(C) and (c)(i)(D)).

(3) In the event of any change in the number of shares of Common Stock deliverable or any increase in the consideration payable to this Corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Conversion Price of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities, and any subsequent adjustments based thereon shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities; provided, however, that this section shall not have any effect on any conversion of such series of Preferred Stock prior to such change or increase.

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities or options or rights related to such securities, and any subsequent adjustments based thereon, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities; provided, however, that this section shall not have any effect on any conversion of such series of Preferred Stock prior to such expiration or termination.

(ii) "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection 5(c)(i)(e)) by this Corporation after June 22, 1998, other than:

(A) Common Stock issued pursuant to a transaction described in subsection 5(c)(iii) hereof, or

(B) 3,454,860 shares of Common Stock, net of repurchases and the cancellation or expiration of options, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors commencing as of May 1994, and such other number of shares of Common Stock as may be fixed from time to time by the Board of Directors and approved by a majority of then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors, or

(C) Common Stock issued or issuable upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

(iii) In the event this Corporation should at any time or from time to time after the effective date hereof fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Conversion Price for the Series A Preferred Stock, Series B Preferred Stock,

Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase of outstanding shares determined in accordance with subsection 5(c)(i)(E).

(iv) If the number of shares of Common Stock outstanding at any time after the effective date hereof is decreased by a combination of the outstanding shares of Common Stock, then, following the record date of such combination, the Conversion Price for the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in outstanding shares.

(d) OTHER DISTRIBUTIONS. In the event this Corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by this Corporation or other persons, assets (excluding cash dividends) or options or rights not referred to in subsection 5(c)(iii), then, in each such case for the purpose of this subsection 5(d), the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of this Corporation into which their shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, are convertible as of the record date fixed for the determination of the holders of Common Stock of this Corporation entitled to receive such distribution.

(e) RECAPITALIZATIONS. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination or merger or sale of assets transaction provided for elsewhere in this Section 5 or Section 6) provision shall be made so that the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, shall thereafter be entitled to receive upon conversion of such series of Preferred Stock the number of shares of stock or other securities or property of this Corporation or otherwise, to which a holder of

Common Stock deliverable upon conversion would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 5 with respect to the rights of the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, after the recapitalization to the end that the provisions of this Section 5 (including adjustment of the Conversion Price then in effect and the number of shares purchasable upon conversion of such series of Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(f) NO IMPAIRMENT. This Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, revitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by this Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock against impairment.

(g) FRACTIONAL SHARES AND CERTIFICATE AS TO ADJUSTMENTS.

(i) No fractional shares shall be issued upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, and the number of shares of Common Stock to be issued shall be rounded to the nearest whole share. Whether or not fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of such series of Preferred Stock the holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(ii) Upon the occurrence of each adjustment or, readjustment of the Conversion Price of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, pursuant to this

Section 5, this Corporation, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, or instrument convertible into shares of any such series of Preferred Stock, as the case may be, a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. This Corporation shall, upon the written request furnish or cause to be furnished to such holder a like certificate setting forth (A) such adjustment and readjustment, (B) the Conversion Price at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of a share of such series of Preferred Stock.

(h) NOTICES OF RECORD DATE. In the event of any taking by this Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other

distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, this Corporation shall mail to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock at least 20 days prior to the date specified therein, a notice specifying the date on which by such record is to be taken for the purpose of such dividend, distribution or right and the amount and character of such dividend, distribution or right.

(i) RESERVATION OF COMMON STOCK ISSUABLE UPON CONVERSION. This Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all authorized shares of such series of Preferred Stock, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then authorized shares of such series of Preferred Stock, in addition to such other remedies as shall be available to the holders of such series of Preferred Stock, this Corporation will take such corporate action as may, in the opinion of its counsel be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(j) NOTICES. Any notice required by the provisions of this Section 5 to be given to the holders of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be deemed given if deposited in the United States postage prepaid, and addressed to each holder of record at such holder's address appearing on the books of this Corporation.

6. MERGER; CONSOLIDATION.

(a) If at any time after the effective date hereof there is a merger, consolidation or other corporate reorganization in which stockholders of this Corporation immediately prior to such transaction own less than 50% of the voting securities of the surviving or controlling entity immediately after the transaction, or sale of all or substantially all of the assets of this Corporation (hereinafter, an "Acquisition"), then, as a part of such Acquisition, provision shall be made so that the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and Series E Preferred Stock shall be entitled to receive, prior to any distribution to holders of Common Stock or other junior equity security of the Corporation, the number of shares of stock or other securities or property to be issued to this Corporation or its stockholders resulting from such Acquisition in an amount per share equal to the Original Series A Issue Price, Original Series B Issue Price, Original Series C Issue Price, Original Series D Issue Price and Original Series E Issue Price, as applicable, plus a further amount equal to any dividends declared but unpaid on such shares. Subject to the following sentence, the holders of Common Stock shall thereafter be entitled to receive, pro rata, the remainder of the number of shares of stock or other securities or property to be issued to this Corporation or its stockholders resulting from such Acquisition. Notwithstanding anything to the contrary in this Section 6, in the event the aggregate value of stock, securities and other property to be distributed to this Corporation or its stockholders with

respect to an Acquisition is less than $5.25 per share (such dollar amount to

be appropriately adjusted to reflect any subsequent stock splits, stock dividends or other recapitalizations) of Common Stock outstanding (for purpose of this calculation only, including in the number of shares of Common Stock outstanding the number of shares of Common Stock then issuable upon conversion of all outstanding Preferred Stock), then the stock, securities or other property shall be distributed among the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock, Series E Preferred Stock and the Common Stock according to the provisions of Section 3 hereof as if such Acquisition were deemed a liquidation.

(b) Any securities to be delivered to the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock, Series E Preferred Stock and Common Stock pursuant to subsection 6(a) above shall be valued as follows:

(i) Securities not subject to investment letter or other similar restrictions on free marketability;

(A) If traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the 30-day period ending three days prior to the closing;

(B) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever are applicable) over the 30-day period ending three days prior to the closing; and

(C) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by the Corporation and the holders of not less than a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock and Series E Preferred Stock.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in subsections 6(b)(i)(A), (B) or (C) to reflect the approximate fair market value thereof, as mutually determined by this Corporation and the holders of a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class.

(c) In the event the requirements of subsection 6(a) are not complied with, this Corporation shall forthwith either:

(i) cause such closing to be postponed until such time as the requirements of this Section 6 have been complied with, or

(ii) cancel such transaction, in which event the rights, preferences and privileges of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall revert to and be the same as such rights, preferences and privileges existing immediately prior to the date of the first notice referred to in subsection 6(d) hereof.

(d) This Corporation shall give each holder of record of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock written notice of such impending transaction not later than 20 days prior to the stockholders' meeting called to approve such action, or 20 days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the impending transaction and the provisions of this Section 6, and this Corporation shall thereafter give such holders prompt notice of any material changes. The transaction shall in no event take place earlier than 20 days after the Corporation has given the first notice provided for herein or earlier than 10 days after the Corporation has given notice of any material changes provided for herein; provided, however, that such periods may be shortened upon the written consent of the holders of a majority of the then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock voting as a class.

(e) The provisions of this Section 6 are in addition to the protective provisions of Section 8 hereof.

7. VOTING RIGHTS; DIRECTORS.

(a) The holder of each outstanding share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall have the right to one vote for each share of Common Stock into which such outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock could be converted on the record date for the vote or written consent of stockholders. In all cases any fractional share, determined on an aggregate conversion basis, shall be rounded to the nearest whole share. With respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled, notwithstanding any provision hereof to notice of any stockholders' meeting in accordance with the bylaws of this Corporation, and shall be entitled to vote, together with holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote.

(b) Notwithstanding subsection 7(a), (i) so long as at least fifty percent (50%) of the shares of Series A Preferred Stock and Series B Preferred Stock originally issued remain issued and outstanding, the holders of Series A Preferred Stock and Series B Preferred Stock, voting together as a separate class, shall be entitled to elect one member of the Board of Directors, (ii) so long as at least fifty percent (50%) of the shares of Series C Preferred Stock originally issued remain issued and outstanding, the holders of Series C Preferred Stock, voting as a separate class, shall be entitled to elect one member of the Board of Directors, and (iii) so long as at least fifty percent (50%) of the shares of Series D Preferred Stock originally issued remain issued and outstanding, the holders of Series D Preferred Stock, voting as a separate class, shall be entitled to elect either one or two members of the Board of Directors, as set forth in that certain Amended and Restated Voting Agreement between the Corporation and its stockholders dated on or about August 8, 1997. Any additional directors shall be elected by the holders of Preferred Stock and Common Stock, voting together as one class. In the case of any vacancy in the office of a director elected by the holders of the Series A Preferred Stock and

Series B Preferred Stock, the Series C Preferred Stock or the Series D Preferred Stock pursuant to this subsection 7(b), the holders of a majority of the then voting power of the Series A Preferred Stock and Series B Preferred Stock, the Series C Preferred Stock or the Series D Preferred Stock, as applicable, shall, within sixty (60) days of such vacancy, elect a successor to hold office for the unexpired term of the director whose place shall be vacant. In the case of a vacancy in the office of any other director, the successor of that director shall be elected within sixty (60) days of such vacancy to hold office for the unexpired term of the director whose place shall be vacant, and such successor director shall be elected by the holders of Preferred Stock and Common Stock, voting together as one class. Any director who shall have been so elected may be removed during the aforesaid term of office, whether with or without cause, only by the affirmative vote of the holders of a majority of the voting power of the Series of Preferred Stock which first elected him. This subsection 7(b) shall be void and of no further effect thereafter upon the occurrence of either of the following events:

(i) the closing of a Qualifying Public Offering;

(ii) upon the distribution to the stockholders pursuant to Section 3 or Section 6 hereof of the net proceeds of the sale of all or substantially all the assets of the Corporation.

8. PROTECTIVE PROVISIONS.

(a) In addition to any approvals required by law, so long as shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (voting, as one class, in accordance with Section 7):

(i) sell, convey, or otherwise dispose of all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) in which this Corporation is not the surviving corporation or effect any transaction or series of related transactions in which more than fifty percent (50%) of the voting power of this Corporation

is disposed of, provided, however, that this restriction shall not apply to any mortgage, deed of trust, pledge or other encumbrance or hypothecation of the Corporation's or any of its subsidiaries' assets for the purpose of securing any contract or obligation; or

(ii) alter or change the rights, preferences, privileges or restrictions of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock; or

(iii) increase the authorized number of shares of Common Stock or Preferred Stock; or

(iv) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series A Preferred Stock,

Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation; or

(v) pay or declare any dividend on its Common Stock or any other junior equity security other than a dividend in Common Stock of this Corporation; or

(vi) change the authorized number of directors; or

(vii) do any act or thing which would result in taxation of the holders of shares of Preferred Stock under section 305(b) of the Internal Revenue Code of 1986, as amended (or any comparable provision of the Internal Revenue Code as hereafter from time to time amended).

(b) In addition to any approvals required by law, so long as shares of Series C Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of and Series C Preferred Stock voting as a single class:

(i) alter or change the rights, preferences, privileges or restrictions of the shares of Series C Preferred Stock; or

(ii) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series C Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation.

(c) In addition to any approvals required by law, so long as shares of Series D Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of and Series D Preferred Stock voting as a single class:

(i) sell, convey, or otherwise dispose of all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) in which this Corporation is not the surviving corporation or effect any transaction or series of related transactions in which more than fifty percent (50%) of the voting power of this Corporation is disposed of, provided, however, that this restriction shall not apply to any mortgage, deed of trust, pledge or other encumbrance or hypothecation of the Corporation's or any of its subsidiaries' assets for the purpose of securing any contract or obligation; or

(ii) alter or change the rights, preferences, privileges or restrictions of the shares of Series D Preferred Stock; or

(iii) increase the authorized number of shares of Series D Preferred Stock; or

(iv) increase the authorized number of directors; or

(v) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series D Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation.

(d) In addition to any approvals required by law, so long as shares of Series E Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of and Series E Preferred Stock voting as a single class:

(i) materially or adversely alter or change the rights, preferences or privileges of the shares of Series E Preferred Stock as a separate series in a manner that is dissimilar and disproportionate relative to the manner in which the rights, preferences or privileges of the other series of Preferred Stock are altered, or

(ii) increase the authorized number of shares of Series E Preferred Stock.

9. STATUS OF REDEEMED OR CONVERTED STOCK. In the event any shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock shall be redeemed or converted pursuant to Section 4 or 5 hereof the shares so redeemed or converted shall be cancelled and shall not be issuable by this Corporation, and the Certificate of Incorporation of this Corporation shall be appropriately amended to effect the corresponding reduction in this Corporation's authorized capital stock.

10. REPURCHASE OF SHARES. In connection with repurchases by this Corporation of its Common Stock pursuant to agreements with certain of the holders thereof approved by this Corporation's Board of Directors, each holder of Preferred Stock shall be deemed to have waived the application, in whole or in part, of any provisions of the Delaware General Corporation Law or any applicable law of any other state which might limit or prevent or prohibit such repurchases.

C. COMMON STOCK.

1. RELATIVE RIGHTS OF PREFERRED STOCK AND COMMON STOCK. All rights preferences, voting powers, relative, participating optional or other special rights and privileges, and qualifications, limitations, or restrictions of the Common Stock are expressly made subject and subordinate to those that may be fixed with respect to any shares of the Preferred Stock.

2. VOTING RIGHTS. Except as otherwise required by law or this Certificate of Incorporation, each holder of Common Stock shall have one vote in respect of each share of stock held by such holder of record on the books of the Corporation for the election of directors and on all matters submitted to a vote of stockholders of the Corporation.

3. DIVIDENDS. Subject to the preferential rights of the Preferred Stock, the holders of shares of Common Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of the assets of the Corporation which are by law available therefor, dividends payable either in cash, in property or in shares of capital stock.

4. DISSOLUTION, LIQUIDATION OR WINDING UP. In the event of any dissolution, liquidation or winding up of the affairs of the Corporation, after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of the Preferred Stock, holders of Common Stock shall be entitled to participate in any distribution of the assets of the Corporation in accordance with Section 3 of Article IV, Division B hereof.

5. NO PREEMPTIVE RIGHTS. The holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Common Stock shall not have any preemptive rights. The foregoing shall not, however, prohibit the Corporation from granting contractual rights of first refusal to purchase securities to holders of Preferred Stock.

ARTICLE V

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware:

A. The Board of Directors of the Corporation is expressly authorized to adopt, amend or repeal the bylaws of the Corporation; provided, however, that the bylaws may only be amended in accordance with the provisions thereof and, provided further that, the authorized number of directors may be changed only with the approval of the holders of at least a majority of the then

outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (voting as one class) in accordance with Section 7 of Article IV Division B.

B. Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

C. The books of the Corporation may be kept at such place within or without the State of Delaware as the bylaws of the Corporation may provide or as may be designated from time to time by the Board of Directors of the Corporation.

ARTICLE VI

A. EXCULPATION.

1. CALIFORNIA. The liability of each and every director of this Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

2. DELAWARE. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is hereafter amended to further

reduce or to authorize, with the approval of the Corporation's stockholders, further reductions in the liability of the Corporation's directors for breach of fiduciary duty, then a director of the Corporation shall not be liable for any such breach to the fullest extent permitted by the Delaware General Corporation Law as so amended.

3. CONSISTENCY. In the event of any inconsistency between Sections 1 and 2 of this Division A, the controlling Section, as to any particular issue with regard to any particular matter, shall be the one which provides to the director in question the greatest protection from liability.

B. INDEMNIFICATION.

1. CALIFORNIA. This Corporation is authorized to indemnify the directors and officers of this Corporation to the fullest extent permissible under California law. Moreover, this Corporation is authorized to provide indemnification of (and advancement of expenses to) agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 317 of the California Corporations Code, subject only to applicable limits set forth in Section 204 of the California Corporations Code, with respect to actions for breach of duty to the Corporation and its stockholders.

2. DELAWARE. To the extent permitted by applicable law, this Corporation is also authorized to provide indemnification of (and advancement of expenses to) such agents (and any other persons to which Delaware law permits this Corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the Delaware General Corporation Law, subject only to limits created by applicable Delaware law (statutory or non-statutory), with respect to actions for breach of duty to the Corporation, its stockholders and others.

3. CONSISTENCY. In the event of any inconsistency between Sections 1 and 2 of this Division B, the controlling Section, as to any particular issue with regard to any particular matter, shall be the one which authorizes for the benefit of the agent or other person in question the provision of the fullest, promptest, most certain or otherwise most favorable indemnification and/or advancement.

C. EFFECT OF REPEAL OR MODIFICATION. Any repeal or modification of any of the foregoing provisions of this Article VI shall not adversely affect any right or protection of a director, officer, agent or other person existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director occurring prior to, such repeal or modification.

ARTICLE VII

The Corporation shall have perpetual existence.

ARTICLE VIII

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

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IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been executed as of this 22nd day of June 1998.

DIGIRAD CORPORATION

By: /s/ Karen A. Klause

Karen A. Klause, President

[SIGNATURE PAGE TO
RESTATED CERTIFICATE OF INCORPORATION]

EXHIBIT C

FORM OF OPINION OF COUNSEL

[Date]

MMC/GATX PARTNERSHIP NO. I
c/o GATX Capital Corporation, Agent
Four Embarcadero Center
Suite 2200
San Francisco, California 94111

Ladies and Gentlemen:

We have acted as counsel for Digirad Corporation (the "Borrower") in connection with (i) the execution of the Loan and Security Agreement of even date herewith (the "Loan Agreement") between Borrower and MMC/GATX PARTNERSHIP NO. I ("Lender"), (ii) the issuance of warrants to purchase Borrower's Series E Preferred Stock (the "Warrants") and (iii) the transactions contemplated thereby. This opinion is being rendered to you pursuant to Section 8.01 of the Loan Agreement. Capitalized terms not otherwise defined in this opinion have the meaning given them in the Loan Agreement.

In connection with this opinion and our representation, we have examined originals, or copies certified or otherwise identified to our satisfaction, of the following:

(i) The Loan Agreement;

(ii) The Warrants;

(iii) The Note dated as of [Date];

(iv) The Restated Articles of Incorporation and the Bylaws of Borrower, each as in effect on the date hereof;

(v) The certificate of an officer of Borrower as to certain factual matters ("Officer Certificate");

(vi) Certificates issued by the Secretary of State of the State of [state of incorporation] dated _____ 199__, certifying the good standing of Borrower;

(vii) Such other documents, records, and certificates as we have deemed necessary or appropriate as a basis for the opinions hereafter expressed.

The Loan Agreement, the Note and the Warrants are hereinafter referred to as the "Transaction Documents."

In such examinations we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to originals of all documents submitted to us as certified, facsimile, telecopied or photostatic copies thereof. As to certain matters of fact material to our opinion, we have relied upon the Officer Certificate and upon your representations in the Transaction Documents.

As used in this opinion, the expression "to the best of our knowledge," means the actual present knowledge or belief of those attorneys in our firm who have or who are currently representing Borrower. We have not undertaken any independent investigation to determine the existence or nonexistence of other facts, and no inference as to our knowledge of the existence or nonexistence of other facts should be drawn from the fact of this firm's representation of Borrower in connection with the Transaction Documents.

Based upon and subject to the foregoing and subject to the qualifications contained herein, we are of the opinion that:

(a) Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of [state of incorporation].

(b) Borrower has the requisite corporate power and authority to execute, deliver and perform the Transaction Documents and to issue the Warrants. All action on the part of Borrower, its directors and its shareholders necessary for the authorization, execution, delivery and performance of the Transaction Documents, has been taken. The Transaction Documents have been duly executed and delivered by an authorized officer of Borrower.

(c) The execution, delivery and performance of the Transaction Documents do not conflict with or violate any provision of Borrower's Restated Articles of Incorporation or Bylaws or of applicable law.

(d) The Transaction Documents constitute legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms. To our knowledge, no filing need be made with any governmental authority with respect to the Transaction Documents in connection with an exemption from state usury laws or in connection with any other matter. [usury may be excepted]

(e) The shares of Series E Preferred Stock issuable upon exercise of the Warrants have been duly authorized and reserved for issuance upon such exercise, and when issued in accordance with the terms of the Warrants, will be duly authorized, validly issued, fully paid and non-assessable.

(f) The shares of Common Stock issuable upon conversion of the Series E Preferred Stock into which the Warrants are convertible, have been duly authorized and reserved for

issuance, when so issued in accordance with the terms of Borrower's Restated Articles of Incorporation, will be duly authorized, validly issued, fully paid and non-assessable.

The opinions set forth above are subject to the following additional qualifications, assumptions, limitations and exceptions:

(A) The effect of bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other similar laws relating to or affecting the rights and remedies of creditors generally.

(B) Limitations imposed by general equitable principles upon the

specific enforceability of any of the provisions of the Transaction Documents and upon the availability of injunctive relief or other equitable remedies.

(C) We express no opinion as to the enforceability of any choice of law provision in the documents.

(D) We express no opinion as to the compliance or noncompliance with applicable antifraud statutes under the rules and regulations of state and federal securities laws concerning the issuance of the Warrant.

(E) We express no opinion herein concerning any law other than the law of the State of California, [the General Corporation Law of the State of Delaware] and the federal laws of the United States of America.

This opinion is furnished to you solely for your benefit and may not be relied upon by any other person (other than assignees of any of your rights) without our prior written consent, which consent shall not be unreasonably withheld or delayed.

Very truly yours,

EXHIBIT D

FORM OF SUBORDINATION AGREEMENT

This Subordination Agreement (this "AGREEMENT") is made as of this _____ day of _____ 1999, by and between _____ Bank ("SENIOR CREDITOR") having its principal place of business at _____, and MMC/GATX Partnership No. I, a California general partnership, having its principal place of business at Four Embarcadero Center, Suite 2200, San Francisco, California 94111 ("CREDITOR").

RECITALS

A. Digirad Corporation ("BORROWER") has a _____ Dollars ($_____) revolving line of credit from Senior Creditor which is or may be from time to time secured by assets and property of Borrower, pursuant to the [Loan and Security Agreement, dated as of _____ 1999], between Borrower and Senior Creditor (as the same may from time to time be amended, modified, supplemented, restated or replaced, the "SENIOR LOAN AGREEMENT") and the other documents executed in connection therewith (together with the Senior Loan Agreement, the "SENIOR CREDIT DOCUMENTS").

B. Creditor has extended or will extend loans in the aggregate original principal amount of Three Million and 00/100 Dollars ($3,000,000.00) as evidenced by one or more Secured Promissory Notes (and as the same may from time to time be amended, modified, supplemented, extended, renewed, restated or replaced, the "SUBORDINATED NOTES") made by Borrower in favor of Creditor. Borrower's obligations to Creditor evidenced by the Subordinated Notes are secured by the personal property collateral granted by the Borrower to Creditor pursuant to a Loan and Security Agreement dated as of October __ 1999 (as the same may from time to time be amended, modified, supplemented or restated, the "SUBORDINATED SECURITY AGREEMENT").

(a) Pursuant to the terms and conditions of this Agreement, Creditor is willing to subordinate: (i) all of Borrower's indebtedness and obligations to Creditor, whether presently existing or arising in the future under or relating to the Subordinated Security Agreement and Subordinated Notes (collectively, the "SUBORDINATED DEBT") to Borrower's indebtedness and obligations to Senior Creditor in a principal amount not to exceed the lesser of: (1) a borrowing base calculated as a percentage (not exceeding 100%) of qualified accounts receivable plus eligible inventory, or (2) $2,500,000.00 (the "SENIOR PRINCIPAL AMOUNT"), plus interest thereon at the standard rate (and not the default rate) set forth in the Senior Credit Documents (including all interest accruing after the commencement by or against Borrower of a bankruptcy, reorganization or similar proceeding), plus, without limitation, the cost of collecting such obligations (including attorneys' fees) (collectively, the "SENIOR DEBT"); and (ii) all of Creditor's security interests in Borrower's property (other than Financed Equipment) (the "COLLATERAL") to all of Senior Creditor's security interests in Borrower's property. Notwithstanding anything to the contrary contained in the definition of "Subordinated Debt", there shall be expressly excluded from such definition any warrant(s) to purchase securities of Borrower executed by Borrower in favor of Creditor or its assignee ("WARRANTS") and all rights of the holder thereunder.

For purposes of this Agreement, the term "Financed Equipment" shall mean all

right, title, interest, claims and demands of Borrower in and to each and every item of equipment, fixtures or personal property, whether now owned or hereafter acquired, together with all substitutions, renewals or replacements of and additions, improvements, accessions, replacement parts and accumulations to any and all of such equipment, fixtures or personal property, together with all proceeds thereof, including, without limitation, insurance, condemnation, requisition or similar payments, and all proceeds from sales, renewals, releases or other dispositions thereof, which is financed with or is designated as collateral for Borrower's obligations to Creditor under, and on and after the date of, the Subordinated Security Agreement by the designation of such equipment, fixtures and personal property on a UCC financing statement listing Borrower as "debtor" and Creditor as "secured party."

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. Notwithstanding the respective dates of attachment or perfection of the security interest of Creditor and the security interest of Senior Creditor: (i) the security interest of Creditor in the property of Borrower (other than Financed Equipment), shall at all times be subordinate to the security interest of Senior Creditor; provided, that if the security interest of Senior Creditor in certain assets or property of Borrower is not valid or perfected then the lien subordination set forth in this Section 1 shall not be effective with respect to such assets or property of Borrower, and (ii) all security interests now or hereafter acquired by Creditor in Financed Equipment shall at all times be prior and superior to any security interests now held or hereafter acquired by Senior Creditor in the Financed Equipment. Creditor shall turn over to Senior Creditor any payments received from the sale, liquidation, other disposition or exercise of remedies with respect to any property of Borrower (other than Financed Equipment). Senior Creditor shall turn over to Creditor any payments or proceeds received from the sale, liquidation, other disposition or exercise of remedies with respect to the Financed Equipment.

2. Nothing herein shall be deemed to subordinate, waive or restrict the performance of the obligations arising under the Warrants or subordinate any interest in stock issuable upon exercise of the Warrants or subordinate any interest in the Financed Equipment. Nothing herein shall be deemed to restrict or prevent Borrower from making any payment to Creditor under the Subordinated Debt.

3. If the Senior Creditor delivers to Creditor a written notice (a "BLOCKAGE NOTICE") which states a specific default has occurred under the Senior Credit Documents and continues to exist after the giving of any required notice and the expiration of any applicable grace or cure period, then during any Blockage Period (as defined below), Creditor shall not exercise any remedy with respect to the Collateral, or commence, or cause to be commenced or prosecuted, or participate in any administrative, legal or equitable action against Borrower. As used herein, "Blockage Period" means a period of time beginning on the date a Blockage Notice is delivered to Creditor and terminating on the earlier of: (1) 60 days thereafter, or (2) Senior Creditor's written consent to such termination, or (3) when Senior Creditor has commenced a judicial proceeding or non-judicial actions to collect or enforce the Senior Debt or a case or proceeding by or against Borrower is commenced under the federal Bankruptcy Code or any other insolvency law. After the termination of any Blockage Period pursuant to the terms hereof

and until Creditor's receipt of a subsequent Blockage Notice from Senior Creditor, Creditor may exercise any remedy with respect to the Collateral and the Subordinated Debt, or commence, or cause to be commenced or prosecuted, or participate in any administrative, legal or equitable action against Borrower. Senior Creditor shall not collect, take possession of, foreclose upon, or exercise any rights or remedies with respect to the Financed Equipment, judicially or nonjudicially, or attempt to do any of the foregoing, without the prior written consent of Creditor, which shall be a matter of Creditor's sole discretion.

4. (a) Upon an event of default under the Subordinated Security Agreement, a sale or disposition of any of the Financed Equipment whether or not approved by Creditor, the bankruptcy or insolvency of Borrower, or Creditor's exercise of remedies against Borrower (a "Release Event"), Senior Creditor's security interests in the Financed Equipment shall be automatically terminated without further deed or act. The proceeds of any Financed Equipment so sold or disposed of shall be applied, after the deduction of any and all costs relating to such sale or disposition (including attorneys' fees, advertising costs and auctioneer's fees) to any and all indebtedness evidenced by the Subordinated Security Agreement in such order as Creditor may, in its discretion, determine, and only if all obligations owed to Creditor by Borrower under the Subordinated Security Agreement have been paid in full, then to all or any part of the present or future indebtedness, liabilities, guaranties or other obligations of Borrower to Senior Creditor in such order as Senior Creditor may, in its discretion, determine.

(b) Senior Creditor agrees to execute and deliver to Creditor, promptly upon Creditor's request, appropriate UCC termination statements or partial releases with respect to any Financed Equipment on or after a Release Event; although Senior Creditor acknowledges that its security interests in the Financed Equipment would be released in any event pursuant to Section (a).

(c) Senior Creditor hereby irrevocably appoints Creditor as Senior Creditor's attorney-in-fact, and grants to Creditor a power of attorney with full power of substitution, in the name of Senior Creditor, for the use and benefit of Creditor, without notice to Senior Creditor, on or after a Release Event to execute and file UCC termination statements or partial releases with respect to any Financed Equipment; although Senior Creditor acknowledges that its security interests in the Financed Equipment would be released in any event pursuant to Section (a).

(d) Senior Creditor acknowledges and agrees that Creditor has no fiduciary, agent, bailee or duty to Senior Creditor with regard to the Financed Equipment. Senior Creditor acknowledges and agrees that Creditor has no obligations to Senior Creditor as a junior lienholder except only those obligations specifically assumed by Creditor under this Agreement and Senior Creditor waives any other junior lienholder rights, claims and defenses. Senior Creditor shall not resist or take any action to prevent Creditor from exercising any remedies with respect to the Financed Equipment and Senior Creditor shall turn over to Creditor any Financed Equipment coming into Senior Creditor's possession or custody. Except as provided in this Agreement, at any time and from time to time, without notice to Senior Creditor, Creditor may take such actions with respect to the Subordinated Security Agreement and the Financed Equipment as Creditor, in its sole discretion, may deem appropriate, including, without limitation, terminating advances to Borrower, increasing the principal amount of the Subordinated Notes, extending the time of payment, increasing applicable interest rates, renewing, compromising or otherwise amending the terms of any documents affecting the Subordinated Notes, the Subordinated Security Agreement, and the Financed Equipment, and enforcing or failing to enforce any rights against Borrower or any other person. Senior Creditor waives the benefits, if any, of any statutory or common law rule that may permit a subordinating creditor to assert any defenses of a surety, guarantor or junior lienholder, or that may give the subordinating creditor the right to require a senior creditor to marshal assets, give notice or maximize value, and Senior Creditor agrees that it shall not assert any such defenses, claims or rights.

4. At any time and from time to time, without notice to Creditor, Senior Creditor may take such actions with respect to the Senior Debt as Senior Creditor, in its sole discretion, may deem appropriate, including, without limitation, terminating advances to Borrower, increasing the principal amount in an amount not to exceed the Senior Principal Amount, extending the time of payment, increasing applicable interest rates, renewing, compromising or otherwise amending the terms of any documents affecting the Senior Debt and any collateral securing the Senior Debt, and enforcing or failing to enforce any rights against Borrower or any other person, but in no event shall the principal amount be increased in an amount exceeding the Senior Principal Amount. Creditor waives the benefits, if any, of any statutory or common law rule that may permit a subordinating creditor to assert any defenses of a surety or guarantor, or that may give the subordinating creditor the right to require a senior creditor to marshal assets, and Creditor agrees that it shall not assert any such defenses or rights inconsistent with the provisions of this Agreement.

5. In the event of Borrower's insolvency, reorganization or any case or proceeding under any bankruptcy or insolvency law or laws relating to the relief of debtors, these provisions shall remain in full force and effect. This Agreement shall remain effective until the earlier of: (i) Borrower no longer owes any amounts under the Senior Credit Documents, or (ii) Creditor has received payment of all amounts owed Creditor under the Subordinated Notes and the Subordinated Security Agreements.

6. This Agreement shall bind any successors or assignees of the parties. This Agreement is solely for the benefit of Creditor and Senior Creditor and not for the benefit of Borrower or any other party.

7. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument. This Agreement shall become effective only when it shall have been executed by Creditor and Senior Creditor (provided, however, in no event shall this Agreement become effective until signed by an officer of Senior Creditor in California).

8. This Agreement shall be governed by and construed in accordance with the laws of the State of California without giving effect to conflicts of law principles. Creditor and Senior Creditor submit to the exclusive jurisdiction of the state and federal courts located in the Northern District of California. CREDITOR AND SENIOR CREDITOR WAIVE THEIR

RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN.

9. This Agreement represents the entire agreement with respect to the subject matter hereof, and supersedes all prior negotiations, agreements and commitments. Creditor is not relying on any representations by Senior Creditor or Borrower in entering into this Agreement, and Creditor has kept and will continue to keep itself fully apprised of the financial and other condition of Borrower. Senior Creditor is not relying on any representations by Creditor or Borrower in entering into this Agreement or the Senior Credit Documents, and Senior Creditor has kept and will continue to keep itself fully apprised of the financial and other condition of Borrower. This Agreement may be amended only by written instrument signed by Creditor and Senior Creditor.

10. In the event of any legal action to enforce the rights of a party under this Agreement, the party prevailing in such action shall be entitled, in addition to such other relief as may be granted, all reasonable costs and expenses, including reasonable attorneys' fees, incurred in such action.

11. Promptly upon an event of default under the Subordinated Security Agreement and the Subordinated Notes, Creditor shall endeavor to provide Senior Creditor with written notice of such default, but Creditor's failure to do so shall not result in any breach of this Agreement or affect the rights of the parties hereto.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

"SENIOR CREDITOR"	"CREDITOR"
_____ BANK	MMC/GATX PARTNERSHIP NO. 1,
	BY: GATX CAPITAL CORPORATION, ITS GENERAL PARTNER
By: ----------	By: ----------
Title: ----------	Title: ----------

THE UNDERSIGNED APPROVES OF THE TERMS OF THIS AGREEMENT.

"BORROWER"

DIGIRAD CORPORATION

By: ----------

Title: ----------

FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

This FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT ("First Amendment"), dated as of August 14, 2000, is entered into by and between DIGIRAD CORPORATION, a Delaware corporation ("Borrower"), and MMC/GATX PARTNERSHIP NO. 1, a California general partnership ("Lender").

RECITALS

A. Borrower and Lender are parties to a Loan and Security Agreement, dated as of October 27, 1999 (the "Loan Agreement") pursuant to which Lender has financed certain equipment.

B. Borrower has now requested that the amount of funding available under the Loan Agreement be increased by $1,000,000. Lender is willing to amend the Loan Agreement upon the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. DEFINITIONS; INTERPRETATION. Unless otherwise defined herein, all capitalized terms used herein and defined in the Loan Agreement shall have the respective meanings given to those terms in the Loan Agreement. Other rules of construction set forth in the Loan Agreement, to the extent not inconsistent with this First Amendment, apply to this First Amendment and are hereby incorporated by reference.

2. AMENDMENTS TO LOAN AGREEMENT.

(a) The cover page of the Loan Agreement shall be amended to read in its entirety as set forth in Exhibit A to this First Amendment.

(b) Section 1.01 of the Loan Agreement shall be amended to add the following defined terms in appropriate alphabetical order:

"CREDIT AMOUNT" shall mean, as it applies to the Facility A Loans or the Facility B Loan, respectively, the maximum aggregate amount of the Loans under this Agreement (if the conditions specified in Schedule 3 are satisfied), which amount is set forth following such term on the cover page of this Agreement.

"FACILITY A LOANS" shall mean Loans made on the terms set forth under the heading Facility A on the cover page of this Agreement.

"FACILITY B LOAN" shall mean the Loan made on the terms set forth under the heading Facility B on the cover page of this Agreement.

"LOAN" means each advance of credit by Lender to Borrower under this Agreement. Each reference to a Loan shall be deemed to refer to a Facility A Loan or a Facility B Loan and the respective terms thereof as is specified on the cover page of this Agreement.

(c) The definition of Applicable Premium in Section 1.01 of the Loan Agreement shall be changed to read as follows:

"APPLICABLE PREMIUM" shall mean

for Facility A Loans, an amount equal to: (i) 4% of the amount being prepaid or accelerated more than twelve (12) months after, but on or before twenty-four (24) months after the first Payment Date, or (ii) 3% of the amount being prepaid or accelerated more than twenty-four (24) months after the first Payment Date; PROVIDED THAT if an Event of Default occurs within twelve (12) months of the first Payment Date (other than an Event of Default specified in Section 9.01 h, i, j, k or 1), the Applicable Premium shall be 4% of the amount being prepaid or accelerated.

for the Facility B Loan, an amount equal to: (i) 2% of the amount being prepaid or accelerated more than twelve (l2) months after, but on or before twenty-four (24) months after the first Payment Date, or (ii) 1.5% of the amount being prepaid or accelerated more than twenty-four (24) months after the first Payment Date; PROVIDED THAT if an Event of Default occurs within twelve (12) months of the first

Payment Date (other than an Event of Default specified in Section 9.01 h, i, j, k or 1), the Applicable Premium shall be 2% of the amount being prepaid or accelerated.

(d) Section 2.01(a) of the Agreement will be changed to read as follows:

(a) THE CREDIT AMOUNT. Subject to the terms and conditions of this Agreement and relying upon the representations and warranties herein set forth as and when made or deemed to be made, Lender agrees to lend to Borrower a maximum of two Facility A Loans (respectively, the "First Loan" and the "Second Loan") in an aggregate amount not to exceed the Credit Amount and one Facility B Loan in the amount of One Million Dollars ($1,000,000). The First Loan shall be in the amount of Two Million Dollars ($2,000,000) and the Second Loan shall be in the amount of One Million Dollars ($1,000,000). The Loans may be prepaid only as set forth in SECTION 2.01(d).

(e) Section 2.01(d) of the Agreement will be changed to read as follows:

(d) OPTIONAL PREPAYMENT WITH PREMIUM. Borrower may not prepay any Loan within twelve (12) months of its first Payment Date; thereafter, upon ten (10) Business Days' prior written notice to Lender, Borrower may, at its option, at any time, prepay all, and not less than all, of a Loan in full at a prepayment price equal to the principal amount of the Loan, plus interest accrued on the Loan through and including the date of such prepayment, plus a premium on the Loan equal to the Applicable Premium. If an Event of Default occurs and is continuing (other than an Event of Default specified in Section 9.01 h, i, j, k or 1, in which case no Applicable Premium is due and payable), and Lender exercises its right under Section 9.02 to accelerate the Loans or the Loans are automatically accelerated, Borrower expressly agrees that the amount then due and payable shall include the Applicable Premium as of the date of such acceleration. In the event that Borrower and the lender of the Indebtedness permitted by clause (e) of the definition of Permitted Indebtedness request Lender's agreement that there be an increase in the amount of such Indebtedness and Lender does not consent (which consent shall be at Lender's sole discretion), Borrower shall be permitted to prepay all Indebtedness hereunder without payment of any Applicable Premium.

(f) The following representation and warranty of Borrower is added to Section 3.01 as Section 3.01(n):

(n) INTELLECTUAL PROPERTY. Any registrations or application of Borrower's Intellectual Property with the US Patent and Trademark Office or the US Copyright Office are listed in the Exhibit C to this Agreement.

(g) Section 5.01 of the Agreement will be changed to read as follows:

5.01 GRANT OF SECURITY INTEREST. Borrower, in order to secure the payment of the principal and interest with respect to the Loans made pursuant to this Agreement, all other sums due under and in respect hereof and of the other Operative Documents, including fees, charges, expenses and attorneys' fees and costs and the performance and observance by Borrower of all other terms, conditions, covenants and agreements herein and in the other Operative Documents (all such amounts and obligations being herein sometimes called the "OBLIGATIONS"), does hereby grant to Lender and its successors and assigns, a security interest in and to the following property (collectively, the "COLLATERAL"): All right, title, interest, claims and demands of Borrower in and to:

(a) All goods and equipment now owned or hereafter acquired, including, without limitation, all laboratory equipment, computer equipment, office equipment, machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

(b) All inventory now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is

temporarily out of Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Borrower's books relating to any of the foregoing;

(c) All contract rights and general intangibles (including Intellectual Property), now owned or hereafter acquired, including, without limitation, goodwill, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer disks, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance and rights to payment of any kind;

(d) All now existing and hereafter arising accounts, contract rights, royalties, license rights and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Borrower (subject, in each case, to the contractual rights of third parties to require funds received by Borrower to be expended in a particular manner), whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's books relating to any of the foregoing;

(e) All documents, cash, deposit accounts, letters of credit, certificates of deposit, instruments, chattel paper and investment property, including, without limitation, all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts and commodity accounts, and all financial assets held in any securities account or otherwise, wherever located, now owned or hereafter acquired and Borrower's books relating to the foregoing; and

(f) Any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof, including, without limitation, insurance, condemnation, requisition or similar payments and proceeds of the sale or licensing of Intellectual Property.

(g) Any and all of the following equipment collateral (collectively, "EQUIPMENT COLLATERAL"):

> All right, title, interest, claims and demands of Borrower in and to each and every item of equipment, fixtures or personal property, whether now owned or hereafter acquired, together with all substitutions, renewals or replacements of and additions, improvements, accessions, replacement parts and accumulations to any and all of such equipment, fixtures or personal property (collectively, the "EQUIPMENT"), together with all proceeds thereof,

> including, without limitation, insurance, condemnation, requisition or similar payments, and all proceeds from sales, renewals, releases or other dispositions thereof, which is financed with or is designated as collateral for the Obligations on and after the date of this Agreement by designating such equipment, fixtures and personal property on a UCC financing statement listing Borrower as "debtor" and Lender as "secured party."

(h) Sections 5.04 and 5.05 of the Agreement shall be changed to read as follows:

5.04 EQUIPMENT COLLATERAL. On or prior to its execution and delivery of this Agreement, Borrower shall provide Lender with a listing, in detail to Lender's satisfaction, of all of Borrower's equipment, fixtures and personal property (collectively, an "Equipment List"), which, at Lender's option, shall be attached as an exhibit to a UCC financing statement filed by Lender naming Borrower as "debtor" and Lender as "secured party." Within thirty days after the end of every quarter after the date hereof, Borrower shall provide Lender with an Equipment List of equipment, fixtures and personal property acquired by Borrower during such quarter through and including April 27, 2001, and such Equipment List shall, at Lender's option, be attached as an exhibit to a UCC financing statement

filed by Lender naming Borrower as "debtor" and Lender as "secured party." Borrower agrees to execute and deliver to Lender any and all such financing statements to Lender. Borrower's equipment, fixtures and personal property acquired after April 27, 2001 may become Third Party Equipment.

5.05 LIEN SUBORDINATION. Lender agrees that the Liens granted to it hereunder (except for Liens in Equipment Collateral) shall be subordinate to the Liens granted in connection with Indebtedness permitted by clause (e) of the definition of Permitted Indebtedness. Lender agrees to enter into a subordination agreement with the lender of the Indebtedness permitted by clause (e) of the definition of Permitted Indebtedness substantially in the form of EXHIBIT D and to negotiate in good faith any changes thereto as long as they are acceptable to Lender. Lender agrees that the Liens granted to it hereunder in Third Party Equipment shall be subordinate to the Liens of future lenders providing equipment financing and equipment lessors for equipment and other personal property acquired by Borrower after April 27, 2001 ("THIRD PARTY EQUIPMENT"); PROVIDED, that, in the case of equipment financings and leasing such Liens are confined solely to the equipment so financed and the proceeds thereof. Notwithstanding the foregoing, the Obligations hereunder shall not be subordinate in right of payment to any obligations to other lenders, equipment lenders or equipment lessors and Lender's rights and remedies hereunder shall not in any way be subordinate to the rights and remedies of any such lender or equipment lessors. Lender agrees to execute and deliver such agreements and documents as may be reasonably requested by Borrower from time to time which set forth the lien subordination described in this SECTION 5.05 and are reasonably acceptable to Lender. Lender shall have no obligation to execute any agreement or document which would impose obligations, restrictions or lien priority on Lender which are less favorable to Lender than those described in this SECTION 5.05.

(i) New Section 5.06 and 5.07 shall be added to the Agreement, which read as follows:

5.06 INTELLECTUAL PROPERTY. (a) Within 30 days of the date of this Agreement, Borrower shall register or cause to be registered with the United States Copyright Office any software (material to the business of Borrower) developed or acquired by Borrower in connection with any product developed or acquired for sale or licensing. (b) While any Obligations remain outstanding, Borrower shall register or cause to be registered with the United States Copyright Office (i) any software (material to the business of Borrower) developed or acquired by Borrower hereafter from time to time in connection with any product developed or acquired for sale or licensing and (ii) any major revisions or upgrades to any software that has previously been registered with the United States Copyright Office. Borrower shall file for registration within 30 days from the development or acquisition of such software, major revision or upgrade. (c) If Borrower has or will federally register any Intellectual Property with the United States Copyright Office or the United States Patent and Trademark Office, then Borrower shall execute and deliver to Lender, for filing with the United States Copyright Office or the United States Patent and Trademark Office, as the case may be, a grant of security interest in such Intellectual Property, in form acceptable to Lender, within 30 days of the date Borrower registers such Intellectual Property. (d) If, on or before December 31, 2000, Borrower raises at least Fifteen Million Dollars ($15,000,000) in the next equity round, and no Default or Event of Default shall exist at such time, then Lender agrees to release its security interest in Intellectual Property.

5.07 NIS AND FLORIDA ACQUISITIONS; COPELCO EQUIPMENT FINANCING. Notwithstanding anything to the contrary herein, Lender consents to Borrower entering into a $3,250,000 credit facility with Copelco or another lender to finance 10 cameras and associated chairs and vehicle, and such equipment may be Third Party Equipment hereunder. In addition, Lender consents to Borrower's acquisition of (i) the mobile business of Nuclear Imaging Systems ("NIS") for the payment to NIS of $750,000 and up to 200,000 shares of Borrower's common stock, (ii) the fixed business of NIS on substantially the same terms as set forth in Exhibit D to this First Amendment, and (iii) the mobile business of Florida Cardiology and Nuclear Medicine Group ("FCNM") for the payment to FCNM of $1,000,000 and up to 400,000 shares of Borrower's common stock; provided, however, prior to Borrower forming any new Subsidiary to hold such assets, Borrower shall provide to Lender documentation to Lender's satisfaction, including without limitation, subsidiary guaranties, to ensure Lender's perfected security interest in such assets, subject only to Permitted Liens.

(j) A new Section 6.01(e) shall be added to the Agreement which reads as follows:

(e) EQUITY INVESTMENT. Borrower shall permit Lender, at Lender's option, to purchase in Borrower's next round of equity financing up to $500,000 of the securities sold in such financing at the same price and on the same terms as paid and received by the

lead investor of the equity financing. Borrower agrees that it shall notify each Lender promptly upon the execution by Borrower of a term sheet or letter of intent setting forth the

terms and conditions of such financing and in any event within five (5) days of such execution. This right of purchase may be assigned by a Lender to its Affiliates.

3. AMENDMENT FACILITY FEE; DEPOSIT. Upon the funding of the Facility B Loan, Borrower agrees to pay to Lender a facility fee ("AMENDMENT FACILITY FEE") of $8,333. Borrower has paid Lender a good faith deposit of $10,000 (the "Deposit"). The Deposit, less Lender's costs and expenses (including in-house counsel fees of $2,500) in an aggregate amount not to exceed $5,000, shall be applied towards the Amendment Facility Fee.

4. CONDITION TO EFFECTIVENESS. The effectiveness of this Amendment is conditioned upon the delivery by Borrower to Lender of the following:

(a) A certificate of the Secretary or the Assistant Secretary of Borrower, in form and substance satisfactory to Lender, certifying the adoption of resolutions of the Board of Directors of Borrower approving this First Amendment and the transactions contemplated hereby (including the issuance of the Warrants described in Section 4(b) and 4(c) below).

(b) A Warrant in the form of Exhibit B hereto.

(c) A Warrant in the form of Exhibit B hereto, except for a total of 8,235 shares executed and delivered to Priority Capital.

(d) This First Amendment duly executed by Borrower.

5. EFFECT OF FIRST AMENDMENT. On and after the date hereof, each reference to the Loan Agreement in the Loan Agreement or in any other document shall mean the Loan Agreement as amended by this First Amendment. The execution, delivery and effectiveness of this First Amendment shall not operate as a waiver of any right, power, or remedy of Lender, nor constitute a waiver of any provision of the Loan Agreement.

6. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants to Lender that:

(a) (i) Borrower is a corporation duly organized, validly existing and in good standing under the laws of California and is duly qualified and authorized to do business in the state(s) where Collateral is or will be located; (ii) Borrower has the full corporate power, authority and legal right and has obtained all necessary approvals, consents and given all notices to execute and deliver this First Amendment and perform the terms thereof; (iii) there is no action, proceeding or claim pending or, insofar as Borrower knows, threatened against Borrower or any of its subsidiaries before any court or administrative agency which might have a materially adverse effect on the business, condition or operations of Borrower or such subsidiary; and (iv) this First Amendment has been duly executed and delivered by Borrower and constitutes the valid, binding and enforceable obligation of Borrower.

(b) No Default or Event of Default under the Loan Agreement has occurred and is continuing.

(c) As of the date hereof, the number of "common equivalent" shares (assuming exercise of all outstanding options or warrants to purchase securities and conversion of all convertible securities) of Borrower outstanding is not more than 31,000,000.

7. FULL FORCE AND EFFECT. Except as amended above, the Loan Agreement remains in full force and effect.

8. HEADINGS. Headings in this First Amendment are for convenience of reference only and are not part of the substance hereof.

9. GOVERNING LAW. This First Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

10. COUNTERPARTS. This First Amendment may be executed in any number of identical counterparts, any set of which signed by all of the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

[Remainder of Page Left Blank Intentionally.]

IN WITNESS WHEREOF, Borrower and Lender have caused this First Amendment to be executed as of the day and year first above written.

DIGIRAD CORPORATION

By: /s/ Scott Huennekens

Name: Scott Huennekens

Title: President & CEO

MMC/GATX PARTNERSHIP NO. I

By: /s/ Patricia W. Leicher

Name: Patricia W. Leicher

Title: VP

EXHIBIT A

LOAN AND SECURITY AGREEMENT

Dated as of October 27, 1999

between

MMC/GATX PARTNERSHIP NO. 1

as Lender

and

DIGIRAD CORPORATION
a Delaware corporation
9350 Trade Place
San Diego, CA 92121

as Borrower

FACILITY A
FACILITY B
Credit Amount: $3,000,000
Credit Amount: $1,000,000
Repayment Period: 36 months
Repayment Period: 36 months
Treasury Note Maturity: 36 Months
Treasury Note Maturity: 36 Months

Loan Margin: 750 basis points
Loan Margin: 750 basis points
Commitment Termination Date:
Commitment Termination Date:
August 25,2000 (First Loan)
November 1, 1999 (Second Loan) June 30, 2000

The terms and information set forth on this cover page are a part of the attached Equipment Loan and Security Agreement, dated as of the date first written above (this "AGREEMENT"), entered into by and among MMC/GATX PARTNERSHIP NO. I ("LENDER") and DIGIRAD CORPORATION ("BORROWER") set forth above. The terms an conditions of this Agreement agreed to between Lender and Borrower are as follows:

EXHIBIT B

WARRANT

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR ANY STATE SECURITIES LAWS. NO SALE OR DISPOSITION MAY BE EFFECTED WITHOUT (i) EFFECTIVE REGISTRATION STATEMENTS RELATED THERETO, (ii) AN OPINION OF COUNSEL OR OTHER EVIDENCE, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATIONS ARE NOT REQUIRED, (iii) RECEIPT OF NO-ACTION LETTERS FROM THE APPROPRIATE GOVERNMENTAL AUTHORITIES, OR (iv) OTHERWISE COMPLYING WITH THE PROVISIONS OF SECTION 7 OF THIS WARRANT.

DIGIRAD CORPORATION

WARRANT TO PURCHASE SHARES
OF SERIES E PREFERRED STOCK

THIS CERTIFIES THAT, for value received, GATX VENTURES, INC. and its assignees are entitled to subscribe for and purchase 57,642 shares of the fully paid and nonassessable Series E Preferred Stock (as adjusted pursuant to Section 4 hereof, the "Shares") of DIGIRAD CORPORATION, a Delaware corporation (the "Company"), at the price of $3.036 per share (such price and such other price as shall result, from time to time, from the adjustments specified in Section 4 hereof is herein referred to as the "Warrant Price"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used herein, (a) the term "Series Preferred" shall mean the Company's presently authorized Series E Preferred Stock, and any stock into or for which such Series E Preferred Stock may hereafter be converted or exchanged, and after the automatic conversion of the Series E Preferred Stock to Common Stock shall mean the Company's Common Stock, (b) the term "Date of Grant" shall mean August 14, 2000, and (c) the term "Other Warrants" shall mean any other warrants issued by the Company in connection with the transaction with respect to which this Warrant was issued, the Loan and Security Agreement dated as of October 27, 1999 (the "Loan Agreement") between the Company and the lender named therein, and any warrant issued upon transfer or partial exercise of or in lieu of this Warrant. The term "Warrant" as used herein shall be deemed to include Other Warrants unless the context clearly requires otherwise.

If the Company is eligible under the Loan Agreement and requests Lender

to fund the Second Loan pursuant to the terms of the Loan Agreement, but Lender elects not to fund the Second Loan, the number of shares of the fully paid and nonassessable Series E Preferred Stock the holder is entitled to subscribe for and purchase as set forth above shall be reduced from 172,925 to 115,283. The terms "Lender" and "Second Loan" shall have the meaning given these capitalized terms in the Loan Agreement.

1. TERM. The purchase right represented by this Warrant is exercisable, in whole or in part, at any time and from time to time from the Date of Grant through the later of (i) seven (7) years after the Date of Grant or (ii) five (5) years after the closing of the Company's initial public offering of its Common Stock ("IPO") effected pursuant to a Registration Statement on Form S-l (or its successor) filed under the Securities Act of 1933, as amended (the "Act").

2. METHOD OF EXERCISE; PAYMENT; ISSUANCE OF NEW WARRANT. Subject to Section 1 hereof, the purchase right represented by this Warrant may be exercised by the holder hereof, in whole or in part and from time to time, at the election of the holder hereof, by (a) the surrender of this Warrant (with the notice of exercise substantially in the form attached hereto as Exhibit A-1 duly completed and executed) at the principal office of the Company and by the payment to the Company, by certified or bank check, or by wire transfer to an account designated by the Company "Wire Transfer") of an amount equal to the then applicable Warrant Price multiplied by the number of Shares then being purchased; (b) if in connection with a registered public offering of the Company's securities, the surrender of this Warrant (with the notice of exercise form attached hereto as Exhibit A-2 duly completed and executed) at the principal office of the Company together with notice of arrangements reasonably satisfactory to the Company for payment to the Company either by certified or bank check or by Wire Transfer from the proceeds of the sale of shares to be sold by the holder in such public offering of an amount equal to the then applicable Warrant Price per share multiplied by the number of Shares then being purchased; or (c) exercise of the "net issuance" right provided for in Section 10.2 hereof. The person or persons in whose name(s) any certificate(s) representing shares of Series Preferred shall be issuable upon exercise of this Warrant shall be deemed to have become the holder(s) of record of, and shall be treated for all purposes as the record holder(s) of, the shares represented thereby (and such shares shall be deemed to have been issued) immediately prior to the close of business on the date or dates upon which this Warrant is exercised. In the event of any exercise of the rights represented by this Warrant, certificates for the shares of stock so purchased shall be delivered to the holder hereof as soon as possible and in any event within thirty (30) days after such exercise and, unless this Warrant has been fully exercised or expired, a new Warrant representing the portion of the Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be issued to the holder hereof as soon as possible and in any event within such thirty-day period; provided, however, at such time as the Company is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, if requested by the holder of this Warrant, the Company shall cause its transfer agent to deliver the certificate representing Shares issued upon exercise of this Warrant to a broker or other person (as directed by the holder exercising this Warrant) within the time period required to settle any trade made by the holder after exercise of this Warrant.

3. STOCK FULLY PAID; RESERVATION OF SHARES. All Shares that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance pursuant to the terms and conditions herein, be fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issue thereof. During the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved for the purpose of the issue upon exercise of the purchase rights evidenced by this Warrant, a sufficient number of shares of its Series Preferred to provide for the exercise of the rights represented by this Warrant and a sufficient number of shares of its Common Stock to provide for the conversion of the Series Preferred into Common Stock.

4. ADJUSTMENT OF WARRANT PRICE AND NUMBER OF SHARES. The number and kind of securities purchasable upon the exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

(a) RECLASSIFICATION OR MERGER. In case of any reclassification or change of securities of the class issuable upon exercise of this Warrant (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or in case of any merger of the Company with or into another corporation (other than a merger with another corporation in which the Company

is the acquiring and the surviving corporation and which does not result in any reclassification or change of outstanding securities issuable upon exercise of this Warrant), or in case of any sale of all or substantially all of the assets of the Company, the Company, or such successor or purchasing corporation, as the case may be, shall duly execute and deliver to the holder of this Warrant a new Warrant (in form and substance satisfactory to the holder of this Warrant), or the Company shall make appropriate provision without the issuance of a new Warrant, so that the holder of this Warrant shall have the right to receive, at a total purchase price not to exceed that payable upon the exercise of the unexercised portion of this Warrant, and in lieu of the shares of Series Preferred theretofore issuable upon exercise of this Warrant, (i) the kind and amount of shares of stock, other securities, money and property receivable upon such reclassification, change, merger or sale by a holder of the number of shares of Series Preferred then purchasable under this Warrant, or (ii) in the case of such a merger or sale in which the consideration paid consists all or in part of assets other than securities of the successor or purchasing corporation, at the option of the Holder of this Warrant, the securities of the successor or purchasing corporation having a value at the time of the transaction equivalent to the valuation of the Series Preferred at the time of the transaction. Any new Warrant shall provide for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4. The provisions of this subparagraph (a) shall similarly apply to successive reclassifications, changes, mergers and transfers.

(b) SUBDIVISION OR COMBINATION OF SHARES. If the Company at any time while this Warrant remains outstanding and unexpired shall subdivide or combine its outstanding shares of Series Preferred, the Warrant Price shall be proportionately decreased and the number of Shares issuable hereunder shall be proportionately increased in the case of a subdivision and the Warrant Price shall be proportionately increased and the number of Shares issuable hereunder shall be proportionately decreased in the case of a combination.

(c) STOCK DIVIDENDS AND OTHER DISTRIBUTIONS. If the Company at any time while this Warrant is outstanding and unexpired shall (i) pay a dividend with respect to Series Preferred payable in Series Preferred, then the Warrant Price shall be adjusted, from and after the date of determination of shareholders entitled to receive such dividend or distribution, to that price determined by multiplying the Warrant Price in effect immediately prior to such date of determination by a fraction (A) the numerator of which shall be the total number of shares of Series Preferred outstanding immediately prior to such dividend or distribution, and (B) the denominator of which shall be the total number of shares of Series Preferred outstanding immediately after such dividend or distribution; or (ii) make any other distribution with respect to Series Preferred (except any distribution specifically provided for in Sections 4(a) and 4(b)), then, in each such case, provision shall be made by the Company such that the holder of this Warrant shall receive upon exercise of this Warrant a proportionate share of any such dividend or distribution as though it were the holder of the Series Preferred (or Common Stock issuable upon conversion thereof) as of the record date fixed for the determination of the shareholders of the Company entitled to receive such dividend or distribution.

(d) ADJUSTMENT OF NUMBER OF SHARES. Upon each adjustment in the Warrant Price, the number of Shares of Series Preferred purchasable hereunder shall be adjusted, to the nearest whole share, to the product obtained by multiplying the number of Shares purchasable immediately prior to such adjustment in the Warrant Price by a fraction, the numerator of which shall be the Warrant Price immediately prior to such adjustment and the denominator of which shall be the Warrant Price immediately thereafter.

(e) ANTIDILUTION RIGHTS. The other antidilution rights applicable to the Shares of Series Preferred purchasable hereunder are set forth in the Company's Certificate of Incorporation, as amended through the Date of Grant, a true and complete copy of which is attached hereto as Exhibit B (the "Charter"). Such antidilution rights shall not be restated, amended, modified or waived in any manner that is adverse to the holder hereof without such holder's prior written consent. The Company shall promptly provide the holder hereof with any restatement, amendment, modification or waiver of the Charter promptly after the same has been made.

5. NOTICE OF ADJUSTMENTS. Whenever the Warrant Price or the number of Shares purchasable hereunder shall be adjusted pursuant to Section 4 hereof, the Company shall make a certificate signed by its chief financial officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Warrant Price and the number of Shares purchasable hereunder after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (without regard to Section 13 hereof, by first class mail, postage prepaid) to the holder of this Warrant. In addition, whenever the conversion price or conversion ratio of the Series Preferred shall be adjusted, the Company shall make a certificate signed by its chief financial officer setting forth, in reasonable detail, the event requiring the adjustment, the

amount of the adjustment, the method by which such adjustment was calculated, and the conversion price or ratio of the Series Preferred after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (without regard to Section 13 hereof, by first class mail, postage prepaid) to the holder of this Warrant.

6. FRACTIONAL SHARES. No fractional shares of Series Preferred will be issued in connection with any exercise hereunder, but in lieu of such fractional shares the Company shall make a cash payment therefor based on the fair market value of the Series Preferred on the date of exercise as reasonably determined in good faith by the Company's Board of Directors.

7. COMPLIANCE WITH ACT; DISPOSITION OF WARRANT OR SHARES OF SERIES PREFERRED.

(a) COMPLIANCE WITH ACT. The holder of this Warrant, by acceptance hereof, agrees that this Warrant, and the shares of Series Preferred to be issued upon exercise hereof and any Common Stock issued upon conversion thereof are being acquired for investment and that such holder will not offer, sell or otherwise dispose of this Warrant, or any shares of Series Preferred to be issued upon exercise hereof or any Common Stock issued upon conversion thereof except under circumstances which will not result in a violation of the Act or any applicable state securities laws. Upon exercise of this Warrant, unless the Shares being acquired

are registered under the Act and any applicable state securities laws or an exemption from such registration is available, the holder hereof shall confirm in writing that the shares of Series Preferred so purchased (and any shares of Common Stock issued upon conversion thereof) are being acquired for investment and not with a view toward distribution or resale in violation of the Act and shall confirm such other matters related thereto as may be reasonably requested by the Company. This Warrant and all shares of Series Preferred issued upon exercise of this Warrant and all shares of Common Stock issued upon conversion thereof (unless registered under the Act and any applicable state securities laws) shall be stamped or imprinted with a legend in substantially the following form:

"THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. NO SALE OR DISPOSITION MAY BE EFFECTED WITHOUT (i) EFFECTIVE REGISTRATION STATEMENTS RELATED THERETO, (ii) AN OPINION OF COUNSEL OR OTHER EVIDENCE, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATIONS ARE NOT REQUIRED, (iii) RECEIPT OF NO-ACTION LETTERS FROM THE APPROPRIATE GOVERNMENTAL AUTHORITIES, OR (iv) OTHERWISE COMPLYING WITH THE PROVISIONS OF SECTION 7 OF THE WARRANT UNDER WHICH THESE SECURITIES WERE ISSUED, DIRECTLY OR INDIRECTLY."

Said legend shall be removed by the Company, upon the request of a holder, at such time as the restrictions on the transfer of the applicable security shall have terminated. In addition, in connection with the issuance of this Warrant, the holder specifically represents to the Company by acceptance of this Warrant as follows:

(1) The holder is aware of the Company's business affairs and financial condition, and has acquired information about the Company sufficient to reach an informed and knowledgeable decision to acquire this Warrant. The holder is acquiring this Warrant for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof in violation of the Act. By executing this Warrant, the holder further represents as of the Date of Grant that the holder does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the Shares or this Warrant.

(2) The holder is a holder in securities of companies in the development stage and acknowledges that it is able to fend for itself, can bear the economic risk of its holding and has such knowledge ad experience in financial and business matters that it is capable of evaluating the merits and risks of the acquisition of this Warrant and the Shares.

(3) The holder understands that this Warrant has not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the holder's investment intent as expressed herein.

(4) The holder further understands that this Warrant must be held indefinitely unless subsequently registered under the Act and qualified under any applicable state

securities laws, or unless exemptions from registration and qualification are otherwise available. The holder is aware of the provisions of Rule 144, promulgated under the Act.

(5) The holder is an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated under the Act.

(b) DISPOSITION OF WARRANT OR SHARES. With respect to any offer, sale or other disposition of this Warrant or any shares of Series Preferred acquired pursuant to the exercise of this Warrant prior to registration of such Warrant or shares, the holder hereof agrees to give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of such holder's counsel, or other evidence, if reasonably satisfactory to the Company, to the effect that such offer, sale or other disposition may be effected without registration or qualification (under the Act as then in effect or any federal or state securities law then in effect) of this Warrant or such shares of Series Preferred or Common Stock and indicating whether or not under the Act certificates for this Warrant or such shares of Series Preferred to be sold or otherwise disposed of require any restrictive legend as to applicable restrictions on transferability in order to ensure compliance with such law. Upon receiving such written notice and reasonably satisfactory opinion or other evidence, the Company, as promptly as practicable but no later than fifteen (15) days after receipt of the written notice, shall notify such holder that such holder may sell or otherwise dispose of this Warrant or such shares of Series Preferred or Common Stock, all in accordance with the terms of the notice delivered to the Company. If a determination has been made pursuant to this Section 7(b) that the opinion of counsel for the holder or other evidence is not reasonably satisfactory to the Company, the Company shall so notify the holder promptly with details thereof after such determination has been made. Notwithstanding the foregoing, this Warrant or such shares of Series Preferred or Common Stock may, as to such federal laws, be offered, sold or otherwise disposed of in accordance with Rule 144 or 144A under the Act, provided that the Company shall have been furnished with such information as the Company may reasonably request to provide a reasonable assurance that the provisions of Rule 144 or 144A have been satisfied. Each certificate representing this Warrant or the shares of Series Preferred thus transferred (except a transfer pursuant to Rule 144 or 144A) shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with such laws, unless in the aforesaid opinion of counsel for the holder, such legend is not required in order to ensure compliance with such laws. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

(c) APPLICABILITY OF RESTRICTIONS. Neither any restrictions of any legend described in this Warrant nor the requirements of Section 7(b) above shall apply to any transfer of, or grant of a security interest in, this Warrant (or the Series Preferred or Common Stock obtainable upon exercise thereof) or any part hereof (i) to a partner of the holder if the holder is a partnership or to a member of the holder if the holder is a limited liability company, (ii) to a partnership of which the holder is a partner or to a limited liability company of which the holder is a member, or (iii) to any affiliate of the holder if the holder is a corporation; PROVIDED, HOWEVER, in any such transfer, if applicable, the transferee shall on the Company's request agree in writing to be bound by the terms of this Warrant as if an original holder hereof.

8. RIGHTS AS SHAREHOLDERS; INFORMATION. No holder of this Warrant, as such, shall be entitled to vote or receive dividends or be deemed the holder of Series Preferred or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the holder of this Warrant, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until this Warrant shall have been exercised and the Shares purchasable upon the exercise hereof shall have become deliverable, as provided herein. Notwithstanding the foregoing, the Company will transmit to the holder of this Warrant such information, documents and reports as are generally distributed to the holders of any class or series of the securities of the Company concurrently with the distribution thereof to the shareholders.

9. MARKET STAND-OFF AGREEMENT. During the time period not to exceed 180 days specified by the Company and an underwriter of securities of the Company, following the effective date of a registration statement of the Company filed under the Act (the "Lock-up"), the holder shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell,

offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to transferees or donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Common Stock included in such registration; PROVIDED, HOWEVER, that this Section 9 shall be applicable (a) only to the first such registration statement of the Company pursuant to which Common Stock (or other securities) of the Company are to be sold on its behalf to the public in an underwritten offering, and (b) only if all officers and directors of the Company enter into similar agreements, and (c) such underwriters certify to the holder of this Warrant in writing that (1) they have determined that the holder must be so bound during the Lock-up or it would have a material negative impact on the offering, and (2) all other holders of warrants of the Company have agreed to be similarly restricted. In order to enforce the foregoing covenant, the Company may impose stop-transfer restrictions with respect to the Shares of the holder (and the shares or securities of every person subject to the foregoing restriction) until the end of such period.

10. ADDITIONAL RIGHTS.

10.1 ACQUISITION TRANSACTIONS. The Company shall provide the holder of this Warrant with at least twenty (20) days' written notice prior to closing thereof of the terms and conditions of any of the following transactions (to the extent the Company has notice thereof): (i) the sale, lease, exchange, conveyance or other disposition of all or substantially all of the Company's property or business, or (ii) its merger into or consolidation with any other corporation (other than a wholly-owned subsidiary of the Company), or any transaction (including a merger or other reorganization) or series of related transactions, in which more than 50% of the voting power of the Company is disposed of.

10.2 RIGHT TO CONVERT WARRANT INTO STOCK; NET ISSUANCE.

(a) RIGHT TO CONVERT. In addition to and without limiting the rights of the holder under the terms of this Warrant, the holder shall have the right to convert this Warrant or any portion thereof (the "Conversion Right") into shares of Series Preferred (or Common Stock if the Series Preferred has been automatically converted into Common Stock) as provided in this Section 10.2 at any time or from time to time during the term of this Warrant. Upon exercise of the Conversion Right with respect to a particular number of shares subject to this Warrant (the "Converted Warrant Shares"), the Company shall deliver to the holder (without payment by the holder of any exercise price or any cash or other consideration) that number of shares of fully paid and nonassessable Series Preferred (or Common Stock if the Series Preferred has been automatically converted into Common Stock) as is determined according to the following formula:

$$X = \frac{B-A}{Y}$$

Where:

X= the number of shares of Series Preferred (or Common Stock if the Series Preferred has been automatically converted to Common Stock) that shall be issued to holder

Y= the fair market value of one share of Series Preferred (or Common Stock if the Series Preferred has been automatically converted to Common Stock)

A= the aggregate Warrant Price of the specified number of Converted Warrant Shares immediately prior to the exercise of the Conversion Right (I.E., the number of Converted Warrant Shares MULTIPLIED BY the Warrant Price)

B= the aggregate fair market value of the specified number of Converted Warrant Shares (I.E., the number of Converted Warrant Shares MULTIPLIED BY the fair market value of one Converted Warrant Share)

No fractional shares shall be issuable upon exercise of the Conversion Right, and, if the number of shares to be issued determined in accordance with the foregoing formula is other than a whole number, the Company shall pay to the holder an amount in cash equal to the fair market value of the resulting fractional share on the Conversion Date (as hereinafter defined). For purposes of Section 9 of this Warrant, shares issued pursuant to the Conversion Right shall be treated as if they were issued upon the exercise of this Warrant.

(b) METHOD OF EXERCISE. The Conversion Right may be exercised by the holder by the surrender of this Warrant at the principal office of the Company together with a written statement (which may be in the form of Exhibit A-1 or Exhibit A-2 hereto) specifying that the holder thereby intends to exercise the Conversion Right and indicating the number of shares subject to this Warrant which are being surrendered (referred to in Section 10.2(a) hereof as the Converted Warrant Shares) in exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written

statement, or on such later date as is specified therein (the "Conversion Date"), and, at the election of the holder hereof, may be made contingent upon the closing of the sale of the Company's Common Stock to the public in a public offering pursuant to a Registration Statement under the Act (a "Public Offering"). Certificates for the shares issuable upon exercise of the Conversion Right and, if applicable, a new warrant evidencing the balance of the shares remaining subject to this Warrant, shall be issued as of the Conversion Date and shall be delivered to the holder within thirty (30) days following the Conversion Date.

(c) DETERMINATION OF FAIR MARKET VALUE. For purposes of this Section 10.2, "fair market value" of a share of Series Preferred (or Common Stock if the Series Preferred has been automatically converted into Common Stock) as of a particular date (the "Determination Date") shall mean:

(i) If the Conversion Right is exercised in connection with and contingent upon a Public Offering, and if the Company's Registration Statement relating to such Public Offering ("Registration Statement") has been declared effective by the Securities and Exchange Commission, then the initial "Price to Public" specified in the final prospectus with respect to such offering.

(ii) If the Conversion Right is not exercised in connection with and contingent upon a Public Offering, then as follows:

(A) If traded on a securities exchange, the fair market value of the Common Stock shall be deemed to be the average of the closing prices of the Common Stock on such exchange over the 30-day period ending five business days prior to the Determination Date, and the fair market value of the Series Preferred shall be deemed to be such fair market value of the Common Stock multiplied by the number of shares of Common Stock into which each share of Series Preferred is then convertible;

(B) If traded on the Nasdaq Stock Market or other over-the-counter system, the fair market value of the Common Stock shall be deemed to be the average of the closing bid prices of the Common Stock over the 30-day period ending five business days prior to the Determination Date, and the fair market value of the Series Preferred shall be deemed to be such fair market value of the Common Stock multiplied by the number of shares of Common Stock into which each share of Series Preferred is then convertible; and

(C) If there is no public market for the Common Stock, then fair market value shall be determined by the Board of Directors of the Company acting in good faith.

10.3 EXERCISE PRIOR TO EXPIRATION. To the extent this Warrant is not previously exercised as to all of the Shares subject hereto, and if the fair market value of one share of the Series Preferred is greater than the Warrant Price then in effect, this Warrant shall be deemed automatically exercised pursuant to Section 10.2 above (even if not surrendered) immediately before its expiration. For purposes of such automatic exercise, the fair market value of one share of the Series Preferred upon such expiration shall be determined pursuant to Section 10.2(c). To

the extent this Warrant or any portion thereof is deemed automatically exercised pursuant to this Section 10.3, the Company agrees to promptly notify the holder hereof of the number of Shares, if any, the holder hereof is to receive by reason of such automatic exercise.

11. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to the holder of this Warrant as follows:

(a) This Warrant has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms, subject to laws of general application relating to

bankruptcy, insolvency and the relief of debtors and the rules of law or principles at equity governing specific performance, injunctive relief and other equitable remedies;

(b) The Shares have been duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable;

(c) The rights, preferences, privileges and restrictions granted to or imposed upon the Series Preferred and the holders thereof are as set forth in the Charter, and on the Date of Grant, each share of the Series Preferred represented by this Warrant is convertible into one share of Common Stock;

(d) The shares of Common Stock issuable upon conversion of the Shares have been duly authorized and reserved for issuance by the Company and, when issued in accordance with the terms of the Charter will be validly issued, fully paid and nonassessable;

(e) The execution and delivery of this Warrant are not, and the issuance of the Shares upon exercise of this Warrant in accordance with the terms hereof will not be, inconsistent with the Company's Charter or by-laws, do not and will not contravene any law, governmental rule or regulation, judgment or order applicable to the Company, and do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or require the consent or approval of, the giving of notice to, the registration or filing with or the taking of any action in respect of or by, any Federal, state or local government authority or agency or other person, except for the filing of notices pursuant to federal and state securities laws, which filings will be effected by the time required thereby; and

(f) There are no actions, suits, audits, investigations or proceedings pending or, to the knowledge of the Company, threatened against the Company in any court or before any governmental commission, board or authority which, if adversely determined, will have a material adverse effect on the ability of the Company to perform its obligations under this Warrant.

(g) The number of shares of Common Stock of the Company outstanding on the date hereof, on a fully diluted basis (assuming the conversion of all outstanding convertible

securities and the exercise of all outstanding options and warrants), does not exceed 25,891,150 shares.

12. MODIFICATION AND WAIVER. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

13. NOTICES. Any notice, request, communication or other document required or permitted to be given or delivered to the holder hereof or the Company shall be delivered, or shall be sent by certified or registered mail, postage prepaid, to each such holder at its address as shown on the books of the Company or to the Company at the address indicated therefor on the signature page of this Warrant.

14. BINDING EFFECT ON SUCCESSORS. This Warrant shall be binding upon any corporation succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company relating to the Series Preferred issuable upon the exercise or conversion of this Warrant shall survive the exercise, conversion and termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the holder hereof.

15. LOST WARRANTS OR STOCK CERTIFICATES. The Company covenants to the holder hereof that, upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant or any stock certificate and, in the case of any such loss, theft or destruction, upon receipt of an indemnity reasonably satisfactory to the Company, or in the case of any such mutilation upon surrender and cancellation of such Warrant or stock certificate, the Company will make and deliver a new Warrant or stock certificate, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Warrant or stock certificate.

16. DESCRIPTIVE HEADINGS. The descriptive headings of the several paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. The language in this Warrant shall be construed as to its fair meaning without regard to which party

drafted this Warrant.

17. GOVERNING LAW. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California (without giving effect to principles of conflicts of laws).

18. SURVIVAL OF REPRESENTATIONS, WARRANTIES AND AGREEMENTS. All representations and warranties of the Company and the holder hereof contained herein shall survive the Date of Grant, the exercise or conversion of this Warrant (or any part hereof) or the termination or expiration of rights hereunder. All agreements of the Company and the holder hereof contained herein shall survive indefinitely until, by their respective terms, they are no longer operative.

19. REMEDIES. In case any one or more of the covenants and agreements contained in this Warrant shall have been breached, the holders hereof (in the case of a breach by the Company), or the Company (in the case of a breach by a holder), may proceed to protect and

enforce their or its rights either by suit in equity and/or by action at law, including, but not limited to, an action for damages as a result of any such breach and/or an action for specific performance of any such covenant or agreement contained in this Warrant.

20. NO IMPAIRMENT OF RIGHTS. The Company will not, by amendment of its Charter or through any other means, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment.

21. SEVERABILITY. The invalidity or unenforceability of any provision of this Warrant in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction, or affect any other provision of this Warrant, which shall remain in full force and effect.

22. RECOVERY OF LITIGATION COSTS. If any legal action or other proceeding is brought for the enforcement of this Warrant, or because of an alleged dispute, breach, default, or misrepresentation in connection with any of the provisions of this Warrant, the successful or prevailing party or parties shall be entitled to recover reasonable attorneys' fees and other costs incurred in that action or proceeding, in addition to any other relief to which it or they may be entitled.

23. ENTIRE AGREEMENT; MODIFICATION. This Warrant constitutes the entire agreement between the parties pertaining to the subject matter contained in it and supersedes all prior and contemporaneous agreements, representations, and undertakings of the parties, whether oral or written, with respect to such subject matter.

The Company has caused this Warrant to be duly executed and delivered as of the Date of Grant specified above.

DIGIRAD CORPORATION

By

Title

Address: 9350 Trade Place
San Diego, CA 92121

GATX VENTURES, INC. (fka MEIER MITCHELL & COMPANY)

By

Title

Address: 4 Orinda Way, Suite 200B

EXHIBIT A-1

NOTICE OF EXERCISE

To: DIGIRAD CORPORATION (the "Company")

1. The undersigned hereby:

|_| elects to purchase_____ shares of [Series Preferred Stock] [Common Stock] of the Company pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full, or

|_| elects to exercise its net issuance rights pursuant to Section 10.2 of the attached Warrant with respect to _____ Shares of [Series Preferred Stock] [Common Stock].

2. Please issue a certificate or certificates representing _____ shares in the name of the undersigned or in such other name or names as are specified below:

(Name)

(Address)

3. The undersigned represents that the aforesaid shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares, all except as in compliance with applicable securities laws.

(Signature)

(Date)

EXHIBIT A-2

NOTICE OF EXERCISE

To: DIGIRAD CORPORATION (the "Company")

1. Contingent upon and effective immediately prior to the closing (the "Closing") of the Company's public offering contemplated by the Registration Statement on Form S___ filed _____, 19__, the undersigned hereby:

|_| elects to purchase _____ shares of [Series Preferred Stock] [Common Stock] of the Company (or such lesser number of shares as may be sold on behalf of the undersigned at the Closing) pursuant to the terms of the attached Warrant, or

|_| elects to exercise its net issuance rights pursuant to Section 10.2 of the attached Warrant with respect to _____ Shares of [Series Preferred Stock] [Common Stock].

2. Please deliver to the custodian for the selling shareholders a stock certificate representing such _____ shares.

3. The undersigned has instructed the custodian for the selling shareholders to deliver to the Company $_____ or, if less, the net proceeds due the undersigned from the sale of shares in the aforesaid public offering. If such net proceeds are less than the purchase price for such shares, the

undersigned agrees to deliver the difference to the Company prior to the Closing.

(Signature)

(Date)

EXHIBIT B

CHARTER

CERTIFICATE OF AMENDMENT
OF
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
DIGIRAD CORPORATION

Digirad Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"),

DOES HEREBY CERTIFY:

FIRST: That resolutions were duly adopted by the Corporation's Board of Directors setting forth a proposed amendment to the Corporation's existing Amended and Restated Certificate of Incorporation, and declaring such amendment to be advisable and recommended for approval by the Corporation's stockholders. The resolutions setting forth the proposed amendment are as follows:

RESOLVED, FURTHER, that Paragraph A and Paragraph B, Section 1 of ARTICLE IV of the Amended and Restated Certificate of Incorporation of this Corporation is hereby amended to read in its entirety as follows:

A. CLASSES OF STOCK. This Corporation is authorized to issue two (2) classes of shares, to be designated "Common" and "Preferred" and referred to herein as the "Common Stock" or the "Preferred Stock" respectively. The total number of shares of Common Stock the Corporation is authorized to issue is Thirty One Million Six Hundred Twenty Three Thousand One Hundred Eighty Four (31,623,184). The par value is $0.001 per share. The total number of shares of Preferred Stock the Corporation is authorized to issue is Twenty Two Million Three Hundred Fourteen Thousand Twenty Three (22,314,023). The par value is $0.001 per share.

The Board of Directors of the Corporation may divide the Preferred Stock into any number of series. The Board of Directors shall fix the designation and number of shares of each such series. The Board of Directors may determine and alter the rights, preferences, privileges and restrictions granted to and imposed upon any wholly unissued series of the Preferred Stock. The Board of Directors (within the limits and restrictions of any resolution adopted by it, originally fixing the number of shares of any series) may increase or decrease the number of shares of any such

series after the issue of shares of that series, but not below the number of then outstanding shares of such series.

B. Rights, Preferences, Privileges and Restrictions of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

1. Designation of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

Two Million Two Hundred Fifty Thousand (2,250,000) shares of Preferred Stock are designated Series A Preferred Stock (the "Series A Preferred Stock") with the rights, preferences and privileges specified herein. Two Million Two Hundred Eighty-One Thousand (2,281,000) shares of Preferred Stock are designated Series B Preferred Stock (the "Series B Preferred Stock") with the rights, preferences and privileges specified herein. Four Million Eight Hundred Thousand (4,800,000) shares of Preferred Stock are designated Series C Preferred Stock (the "Series C Preferred Stock") with the rights, preferences and privileges specified herein. Eight Million Six Hundred Sixty-Eight Thousand One Hundred Forty (8,668,140) shares of Preferred Stock are designated Series D Preferred Stock (the "Series D Preferred Stock"). Four Million Three Hundred Fourteen Thousand Eight Hundred Eighty Three (4,314,883) shares of Preferred Stock are designated Series E Preferred Stock (the "Series E Preferred Stock"). As used in this Article IV, Division B, the term "Preferred Stock" shall refer to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock."

RESOLVED, FURTHER, said Amendment shall also change ARTICLE IV, Section B, Subsection 5(c)(ii)(B) thereof so that, as amended, said subsection shall read in its entirety as follows.

"(B) 5,454,860 shares of Common Stock, net of repurchases and the cancellation or expiration of options, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors commencing as of May 1994, and such other number of shares of Common Stock as may be fixed from time to time by the Board of Directors and approved by a majority of then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors, or"

SECOND: That, thereafter, the Corporation's stockholders approved this amendment by written consent in accordance with Section 228 of the Delaware General Corporation Law.

THIRD: That this amendment was duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

FOURTH: That the capital of the Corporation shall not be reduced under or by reason of this amendment.

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IN WITNESS WHEREOF, the Digirad Corporation. has caused this certificate to be signed by Scott Huennekens, its President, this 28th day of March, 2000.

By: /s/ Scott Huennekens

Scott Huennekens, President

[SIGNATURE PAGE TO CERTIFICATE OF AMENDMENT OF AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF DIGIRAD CORPORATION]

CERTIFICATE OF AMENDMENT
OF
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
DIGIRAD CORPORATION

Digirad Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"),

DOES HEREBY CERTIFY:

FIRST: That resolutions were duly adopted by the Corporation's Board of Directors setting forth a proposed amendment to the Corporation's existing Amended and Restated Certificate of Incorporation, and declaring such amendment to be advisable and recommended for approval by the Corporation's stockholders. The resolutions setting forth the proposed amendment are as follows:

RESOLVED, FURTHER, that Paragraph A and Paragraph B, Section 1 of ARTICLE IV of the Amended and Restated Certificate of Incorporation of this Corporation is hereby amended to read in its entirety as follows:

A. CLASSES OF STOCK. This Corporation is authorized to issue two (2) classes of shares, to be designated "Common" and "Preferred" and referred to herein as the "Common Stock" or the "Preferred Stock" respectively. The total number of shares of Common Stock the Corporation is authorized to issue is Thirty One Million Two Hundred Ninety Three Thousand Eight Hundred Seven (31,293,807). The par value is $0.001 per share. The total number of shares of Preferred Stock the Corporation is authorized to issue is Twenty One Million Nine Hundred Eighty Four Thousand Six Hundred Forty Six (21,984,646). The par value is $0.001 per share.

The Board of Directors of the Corporation may divide the Preferred Stock into any number of series. The Board of Directors shall fix the designation and number of shares of each such series. The Board of Directors may determine and alter the rights, preferences, privileges and restrictions granted to and imposed upon any wholly unissued series of the Preferred Stock. The Board of Directors (within the limits and restrictions of any resolution adopted by it, originally fixing the number of shares of any series) may increase or decrease the number of shares of any such

series after the issue of shares of that series, but not below the number of then outstanding shares of such series.

B. Rights, Preferences, Privileges and Restrictions of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

1. Designation of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

Two Million Two Hundred Fifty Thousand (2,250,000) shares of Preferred Stock are designated Series A Preferred Stock (the "Series A Preferred Stock") with the rights, preferences and privileges specified herein. Two Million Two Hundred Eighty-One Thousand (2,281,000) shares of Preferred Stock are designated Series B Preferred Stock (the "Series B Preferred Stock") with the rights, preferences and privileges specified herein. Four Million Eight Hundred Thousand (4,800,000) shares of Preferred Stock are designated Series C Preferred Stock (the "Series C Preferred Stock") with the rights, preferences and privileges specified herein. Eight Million Six Hundred Sixty-Eight Thousand One Hundred Forty (8,668,140) shares of Preferred Stock are designated Series D Preferred Stock (the "Series D Preferred Stock"). Three Million Nine Hundred Eighty Five Thousand Five Hundred Six (3,985,506) shares of Preferred Stock are designated Series E Preferred Stock (the "Series E Preferred Stock"). As

used in this Article IV, Division B, the term "Preferred Stock" shall refer to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock."

RESOLVED, FURTHER, said Amendment shall also change ARTICLE IV, Section B, Subsection 5(c)(ii)(B) thereof so that, as amended, said subsection shall read in its entirety as follows.

"(B) 4,454,860 shares of Common Stock, net of repurchases and the cancellation or expiration of options, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors commencing as of May 1994, and such other number of shares of Common Stock as may be fixed from time to time by the Board of Directors and approved by a majority of then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors, or"

RESOLVED, FURTHER, said Amendment shall also change ARTICLE IV, Section B, Subsection 8(d) thereof so that, as amended, said subsection shall read in its entirety as follows.

"(d) In addition to any approvals required by law, so long as shares of Series E Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least ninety percent (90%) of the then outstanding voting power of and Series E Preferred Stock voting as a single class:"

SECOND: That, thereafter, the Corporation's stockholders approved this amendment by written consent in accordance with Section 228 of the Delaware General Corporation Law.

THIRD: That this amendment was duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

FOURTH: That the capital of the Corporation shall not be reduced under or by reason of this amendment.

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IN WITNESS WHEREOF, the Digirad Corporation. has caused this certificate to be signed by Scott Huennekens, its President, this 8th day of March, 2000.

By: /s/ Scott Huennekens

Scott Huennekens, President

[SIGNATURE PAGE TO CERTIFICATE OF AMENDMENT OF AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF DIGIRAD CORPORATION]

CERTIFICATE OF AMENDMENT TO
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF DIGIRAD CORPORATION,
a Delaware Corporation

Digirad Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"),

DOES HEREBY CERTIFY:

FIRST: That resolutions were duly adopted by the Board of Directors of the Corporation setting forth a proposed amendment to the existing Amended and Restated Certificate of Incorporation of the Corporation, and declaring said amendment to be advisable and recommended for approval by the stockholders of the Corporation. The resolutions setting forth the proposed amendment are as follows:

RESOLVED, FURTHER, that Paragraph A and Paragraph B, Section 1 of ARTICLE IV of the Amended and Restated Certificate of Incorporation of this Corporation is hereby amended to read in its entirety as follows:

A. CLASSES OF STOCK. This Corporation is authorized to issue two (2) classes of shares, to be designated "Common" and "Preferred" and referred to herein as the "Common Stock" or the "Preferred Stock" respectively. The total number of shares of Common Stock the Corporation is authorized to issue is Twenty-Seven Million (27,000,000). The par value is $0.001 per share. The total number of shares of Preferred Stock the Corporation is authorized to issue is Eighteen Million Six Hundred Ninety Thousand Eight Hundred Thirty-Nine (18,690,839). The par value is $0.001 per share.

The Board of Directors of the Corporation may divide the Preferred Stock into any number of series. The Board of Directors shall fix the designation and number of shares of each such series. The Board of Directors may determine and alter the rights, preferences, privileges and restrictions granted to and imposed upon any wholly unissued series of the Preferred Stock. The Board of Directors (within the limits and restrictions of any resolution adopted by it, originally fixing the number of shares of any series) may increase or decrease the number of shares of any such series after the issue of shares of that series, but not below the number of then outstanding shares of such series.

B. Rights, Preferences, Privileges and Restrictions of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

1. Designation of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

Two Million Two Hundred Fifty Thousand (2,250,000) shares of Preferred Stock are designated Series A Preferred Stock (the "Series A Preferred Stock") with the rights, preferences and privileges specified herein. Two Million Two Hundred Eighty-One Thousand (2,281,000) shares of Preferred Stock are designated Series B Preferred Stock (the "Series B Preferred Stock") with the rights, preferences and privileges specified herein. Four Million Eight Hundred Thousand (4,800,000) shares of Preferred Stock are designated Series C Preferred Stock (the "Series C Preferred Stock") with the rights, preferences and privileges specified herein. Eight Million Six Hundred Sixty-Eight Thousand One Hundred Forty (8,668,140) shares of Preferred Stock are designated Series D Preferred Stock (the "Series D Preferred Stock"). Six Hundred Ninety-One Thousand Six Hundred Ninety-Nine (691,699) shares of Preferred Stock are designated Series E Preferred Stock (the "Series E Preferred Stock"). As used in this Article IV, Division B, the term "Preferred Stock" shall refer to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock."

SECOND: That, thereafter, the stockholders of said Corporation approved the amended by written consent in accordance with Section 228 of the Delaware General Corporation Law.

THIRD: That said amendment was duly approved in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

FOURTH: That the capital of said Corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, Digirad Corporation, has caused this certificate to be signed by Scott Huennekens, its President, on this 27th day of October, 1999.

By: /s/ Scott Huennekens

Scott Huennekens, President

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
DIGIRAD CORPORATION

Digirad Corporation, a corporation organized and existing under the laws of the state of Delaware, hereby certifies as follows:

1. The name of the corporation is Digirad Corporation. The date the Corporation filed its original Certificate of Incorporation with the Secretary of State was January 2, 1997.

2. This Amended and Restated Certificate of Incorporation restates and amends the provisions of the original Certificate of Incorporation of this Corporation as heretofore in effect and was duly adopted by the Corporation's Board of Directors in accordance with Sections 241 and 245 of the General Corporation Law of the State of Delaware.

3. The text of the Certificate of Incorporation is hereby amended and restated to read as herein set forth in full:

ARTICLE I

The name of the Corporation (hereinafter called "Corporation") is Digirad Corporation.

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is 30 Old Rudnick Lane, City of Dover, County of Kent 19901, and the name of the registered agent of the Corporation in the State of Delaware at such address is CorpAmerica, Inc.

ARTICLE III

The purpose of this Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

A. CLASSES OF STOCK. This Corporation is authorized to issue two (2) classes of shares, to be designated "Common" and "Preferred" and referred to herein as the "Common Stock" or the "Preferred Stock" respectively. The total number of shares of Common Stock the Corporation is authorized to issue is twenty-five million four hundred ninety-four thousand seventy-one (25,494,071). The par value is $0.001 per share. The total number of shares of Preferred Stock the Corporation is authorized to issue is eighteen million four hundred ninety-three thousand two hundred eleven (18,493,211). The par value is $0.001 per share.

The Board of Directors of the Corporation may divide the Preferred Stock into any number of series. The Board of Directors shall fix the designation and number of shares of each such series. The Board of Directors may determine and alter the rights, preferences, privileges and restrictions granted to and imposed upon any wholly unissued series of the Preferred Stock. The Board of Directors (within the limits and restrictions of any resolution adopted by it, originally fixing the number of shares of any series) may increase or decrease the number of shares of any such series after the issue of shares of that series, but not below the number of then outstanding shares of such series.

B. Rights, Preferences, Privileges and Restrictions of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D

Preferred Stock and Series E Preferred Stock.

1. Designation of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

Two Million Two Hundred Fifty Thousand (2,250,000) shares of Preferred Stock are designated Series A Preferred Stock (the "Series A Preferred Stock") with the rights, preferences and privileges specified herein. Two Million Two Hundred Eighty-One Thousand (2,281,000) shares of Preferred Stock are designated Series B Preferred Stock (the "Series B Preferred Stock") with the rights, preferences and privileges specified herein. Four Million Eight Hundred Thousand (4,800,000) shares of Preferred Stock are designated Series C Preferred Stock (the "Series C Preferred Stock") with the rights, preferences and privileges specified herein. Eight million six hundred sixty-eight thousand one hundred forty (8,668,140) shares of Preferred Stock are designated Series D Preferred Stock (the "Series D Preferred Stock"). Four hundred ninety-four thousand seventy-one (494,071) shares of Preferred Stock are designated Series E Preferred Stock (the "Series E Preferred Stock"). As used in this Article IV, Division B, the term "Preferred Stock" shall refer to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

2. DIVIDEND PROVISIONS.

The holders of shares of Preferred Stock shall be entitled to receive non-cumulative dividends, out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock of this Corporation) on the Common Stock or any other junior equity security of this Corporation, at the rate of $.10 per share of Series A Preferred Stock, $.11 per share of Series B Preferred Stock, $.125 per share of Series C Preferred Stock, $.23073 per share of Series D Preferred Stock and $.3036 per share of Series E Preferred Stock per annum plus an amount equal to that paid on outstanding shares of Common Stock of this Corporation, whenever funds are legally available therefor, payable quarterly when, as and if declared by the Board of Directors and shall be non-cumulative. Dividends, if declared, must be declared and paid with respect to all series of Preferred Stock contemporaneously, and if less than full dividends are declared, the same percentage of the dividend rate will be payable to each series of Preferred Stock.

3. LIQUIDATION PREFERENCE.

(a) In the event of any liquidation, dissolution or winding up of this Corporation, either voluntary or involuntary, the holders of Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of this Corporation to the holders of Common Stock or any other junior equity security by reason of their ownership thereof an amount for each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, respectively, held by such holder equal to the sum of (i) $1.00 for each such outstanding share of Series A Preferred Stock (the "Original Series A Issue Price"), (ii) $1.10 for each such outstanding share of Series B Preferred Stock (the "Original Series B Issue Price"), (iii) $1.25 for each such outstanding share of Series C Preferred Stock (the "Original Series C Issue Price"), (iv) $2.3073 for each outstanding share of Series D Preferred Stock (the "Original Series D Issue Price"), (v) $3.036 for each outstanding share of Series E Preferred Stock (the "Original Series E Issue Price") and (vi) in each case, an amount equal to all declared but unpaid dividends on each such share. If upon the occurrence of such an event the assets and funds thus distributed among the holders of the Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of this Corporation legally available for distribution shall be distributed, ratably among the holders of the Preferred Stock in proportion to the product of the liquidation preference of each such share and the number of such shares owned by each such holder.

(b) Upon the completion of the distribution required by subsection 3(a) above, if assets remain in the Corporation, the holders of the Common Stock shall receive an amount equal to $.21 per share (adjusted to reflect any subsequent stock splits, stock dividends, or other recapitalizations) for each share of Common Stock held by them. If, upon the occurrence of such event, the assets and funds thus distributed among the holders of the Common Stock shall be insufficient to permit payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of this Corporation legally available for distribution (after giving effect to the distribution referred to in Section 3(a) hereof) shall be distributed ratably among the holders of the Common Stock in proportion to the amount of such stock owned by each such holder.

(c) After the distributions described in

subsections 3(a) and (b) have been paid, the remaining assets of this Corporation available for distribution to stockholders shall be distributed among the holders of Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock held by each (assuming conversion of all such Preferred Stock).

4. REDEMPTION.

(a) The outstanding Preferred Stock shall be redeemable as provided in this Section 4. The Series A Redemption Price shall be the total amount equal to $1.00 per share of Series A Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date (as such term is hereinafter defined). The Series B Redemption Price shall be the total amount equal to $1.10 per share of Series B Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series C Redemption Price shall be the total amount equal to $1.25 per share of Series C Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares

to the Redemption Date. The Series D Redemption Price shall be the total amount equal to $2.3073 per share of Series D Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series E Redemption Price shall be the total amount equal to $3.036 per share of Series E Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date.

(b) On or at any time after July 31, 2004, upon the receipt by this Corporation from the holders of at least 66-2/3% of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class, of a written request for redemption hereunder of their respective shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (the "Redemption Request"), this Corporation shall, from any source of funds legally available therefor, redeem all of the shares of Preferred Stock by paying in cash therefor a sum equal to the Series A Redemption Price, the Series B Redemption Price, the Series C Redemption Price, the Series D Redemption Price and the Series E Redemption Price, respectively.

(c) (i) At least 15, but no more than 30, days prior to the date fixed for any redemption of the Preferred Stock (the "Redemption Date"), which Redemption Date shall be no later than 45 days following the Corporation's receipt of the Redemption Request, written notice shall be mailed, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock to be redeemed at the address last shown on the records of this Corporation for such holder or given by the holder to this Corporation for the purpose of notice or if no such address appears or is given, at the place where the principal executive office of this Corporation is located, notifying such holder of the redemption to be effected, specifying the number of shares to be redeemed from such holder, the Redemption Date, the Series A Redemption Price, the Series B Redemption Price, the Series C Redemption Price, the Series D Redemption Price or the Series E Redemption Price as the case may be, the place at which payment may be obtained and the date on which such holder's Conversion Rights (as hereinafter defined) as to such shares, terminating and calling upon such holder to surrender to this Corporation, in the manner and at the place designated, such holder's certificate or certificates representing the shares to be redeemed (the "Redemption Notice"). Except as provided in subsection 4(c)(iii), on or after the Redemption Date, each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock to be redeemed shall surrender to this Corporation the certificate or certificates representing such shares, in the manner and at the place designated in the Redemption Notice, and thereupon the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, the Series D Redemption Price or the Series E Redemption Price, as the case may be, of such shares shall be payable, to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(ii) If the funds of the Corporation legally available for redemption of outstanding shares of Preferred Stock on any Redemption Date are insufficient to redeem the total number of shares of

Preferred Stock to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such shares ratably among the holders of (A) first, such shares of Series B, Series C, Series D and Series E Preferred Stock to be redeemed, and (B) second, such shares of Series A Preferred Stock to be redeemed. The shares of Preferred Stock not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein. At any time thereafter when additional funds of this Corporation are legally available for the redemption of shares of Preferred Stock, such funds shall immediately be used to redeem the balance of the shares which this Corporation has become obligated to redeem on any Redemption Date but which it has not redeemed.

(iii) From and after the Redemption Date, unless there shall have been a default in payment of the applicable Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price or the Series E Redemption Price, all rights of the holders of such shares as holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (except the right to receive the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price or the Series E Redemption Price, without interest, upon surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of this Corporation or be deemed to be outstanding for any purpose whatsoever.

(iv) At least three days prior to the Redemption Date, this Corporation shall deposit the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price and Series E Redemption Price of all outstanding shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, designated for redemption in the Redemption Notice, and not yet redeemed or converted, with a bank or trust company having aggregate capital and surplus in excess of $50,000,000, as a trust fund for the benefit of the holders of the shares designated for redemption and not yet redeemed. Simultaneously, this Corporation shall deposit irrevocable instructions and authority to such bank or trust company to pay, on and after the Redemption Date or prior thereto, the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price and Series E Redemption Price, as the case may be, to the holders thereof upon surrender of their certificates. Any monies deposited by this Corporation pursuant to this subsection 4(c)(iv) for the redemption of shares which are thereafter converted into shares of Common Stock pursuant to Section 5 hereof no later than the close of business on the Redemption Date shall be returned to this Corporation forthwith upon such conversion. The balance of any monies deposited by this Corporation pursuant to this subsection 4(c)(iv) remaining unclaimed at the expiration of two years following the Redemption Date shall thereafter be returned to this Corporation, provided that the stockholder to which such monies would be payable hereunder shall be entitled, upon proof of its ownership of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, and payment of any bond requested by this Corporation, to receive such monies but without interest from the Redemption Date.

5. CONVERSION. The holders of Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) RIGHT TO CONVERT.

(i) Subject to subsection 5(c), each outstanding share of Preferred Stock shall be convertible, at the option of the holder thereof at any time after the date of issuance of such share (and on or prior to the fifth day prior to the Redemption Date, if any, as may have been fixed in any Redemption Notice), at the office of this Corporation or any transfer agent for such series of Preferred Stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the Original Series A Issue Price, the Original Series B Issue Price, the Original Series C Issue Price, the Original Series D Issue Price and the Original Series E Issue Price, respectively, by the Conversion Price at the time in effect for such series or shares of such series. The initial Conversion Price per share for shares of Preferred Stock shall be the Original Series A Issue Price, the Original Series B Issue Price, the Original Series C Issue Price, the Original Series D Issue Price and the Original Series E Issue Price, respectively, provided, however, that the Conversion Prices for the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock shall be subject to adjustment as set forth in subsection 5(c).

(ii) Each outstanding share of Preferred Stock shall automatically be converted into shares of Common Stock at the Conversion Price at the time in effect for such shares immediately upon:

(A) the closing of this Corporation's sale of its Common Stock in a bona fide, firm commitment underwritten public offering registered under the Securities Act of 1933, as amended (the "Securities Act"), which results in aggregate gross offering proceeds to this Corporation of at least $15,000,000, at a public offering price of not less than $7.50 per share (adjusted to reflect subsequent stock dividends, stock splits or recapitalizations) (a "Qualifying Public Offering"); or

(B) the approval of (i) holders of at least 75% of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting together as a single class and (ii) holders of not less than 60% of the Series D Preferred Stock voting as a class.

(b) MECHANICS OF CONVERSION. Before any holder of Preferred Stock shall be entitled to convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of this Corporation or of any transfer agent for such stock, and shall be given written notice by mail postage prepaid, to this Corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. This Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of such series of Preferred

Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. If the conversion is in connection with an underwritten offer of securities registered pursuant to the Securities Act, the conversion may, at the option of any holder tendering shares of such series of Preferred Stock for conversion, be conditioned upon the closing with the underwriter of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common Stock issuable upon such conversion of shares of such series of Preferred Stock shall not be deemed to have converted such shares of such series of Preferred Stock until immediately prior to the closing of such sale of securities.

(c) CONVERSION PRICE ADJUSTMENTS OF THE PREFERRED STOCK. The Conversion Prices of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be subject to adjustment from time to time as follows:

(i) (A) If this Corporation shall issue any Additional Stock (as defined below) without consideration or for a consideration per share less than the Conversion Price for shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock in effect immediately prior to the issuance of such Additional Stock, the new Conversion Price for such shares of such series of Preferred Stock shall be determined by multiplying the Conversion Price for such series of Preferred Stock in effect immediately prior to the issuance of Additional Stock by a fraction:

(x) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of shares of Common Stock equivalents which the aggregate consideration received by this Corporation for the shares of such Additional Stock so issued would purchase at the Conversion Price in effect at the time for the shares of the series of Preferred Stock with respect to which the adjustment is being made; and

(y) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of such shares of Additional Stock so issued.

Any series of issuances of Additional Stock

consisting of Common Stock or the same series of Preferred Stock, issued at the same price and within a six-month period, shall be treated as one issuance of Additional Stock for the purposes of this calculation.

(B) No adjustment of the Conversion Price for such series of Preferred Stock shall be made in an amount less than one cent per share, provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to three years from the date of the event giving rise to the adjustment being carried forward, or shall be made at the end of three years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in subsections 5(c)(i)(E)(3) and (c)(i)(E)(4), no adjustment of such Conversion Price for such series of Preferred Stock pursuant to this subsection 5(c)(i) shall have the effect of increasing the Conversion Price for such series of Preferred Stock above the Conversion Price for such series in effect immediately prior to such adjustment.

(C) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by this Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of the Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board of Directors irrespective of any accounting treatment.

(E) In the case of the issuance of options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities (which are not excluded from the definition of Additional Stock), the following provisions shall apply:

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections 5(c)(i)(C) and (c)(i)(D)), if any, received by the Corporation upon the issuance of such options or rights plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby.

(2) The aggregate Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by this Corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by this Corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subsections 5(c)(i)(C) and (c)(i)(D)).

(3) In the event of any change in the number of shares of Common Stock deliverable or any increase in the consideration payable to this Corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Conversion Price of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities, and any subsequent adjustments based thereon shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities; provided, however,

that this section shall not have any effect on any conversion of such series of Preferred Stock prior to such change or increase.

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities or options or rights related to such securities, and any subsequent adjustments based thereon, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities; provided, however, that this section shall not have any effect on any conversion of such series of Preferred Stock prior to such expiration or termination.

(ii) "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection 5(c)(i)(E)) by this Corporation after June 22, 1998, other than:

(A) Common Stock issued pursuant to a transaction described in subsection 5(c)(iii) hereof, or

(B) 3,454,860 shares of Common Stock, net of repurchases and the cancellation or expiration of options, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors commencing as of May 1994, and such other number of shares of Common Stock as may be fixed from time to time by the Board of Directors and approved by a majority of then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors, or

(C) Common Stock issued or issuable upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

(iii) In the event this Corporation should at any time or from time to time after the effective date hereof fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Conversion Price for the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase of outstanding shares determined in accordance with subsection 5(c)(i)(E).

(iv) If the number of shares of Common Stock outstanding at any time after the effective date hereof is decreased by a combination of the outstanding shares of Common Stock, then, following the record date of such combination, the Conversion Price for the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in outstanding shares.

(d) OTHER DISTRIBUTIONS. In the event this Corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by this Corporation or other persons, assets (excluding cash dividends) or options or rights not referred to in subsection 5(c)(iii), then, in each such case for the purpose of this subsection 5(d), the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, shall be entitled to a proportionate share of any such

distribution as though they were the holders of the number of shares of Common Stock of this Corporation into which their shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, are convertible as of the record date fixed for the determination of the holders of Common Stock of this Corporation entitled to receive such distribution.

(e) RECAPITALIZATIONS. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination or merger or sale of assets transaction provided for elsewhere in this Section 5 or Section 6) provision shall be made so that the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, shall thereafter be entitled to receive upon conversion of such series of Preferred Stock the number of shares of stock or other securities or property of this Corporation or otherwise, to which a holder of

Common Stock deliverable upon conversion would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 5 with respect to the rights of the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, after the recapitalization to the end that the provisions of this Section 5 (including adjustment of the Conversion Price then in effect and the number of shares purchasable upon conversion of such series of Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(f) NO IMPAIRMENT. This Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, revitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by this Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock against impairment.

(g) FRACTIONAL SHARES AND CERTIFICATE AS TO ADJUSTMENTS.

(i) No fractional shares shall be issued upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, and the number of shares of Common Stock to be issued shall be rounded to the nearest whole share. Whether or not fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of such series of Preferred Stock the holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(ii) Upon the occurrence of each adjustment or, readjustment of the Conversion Price of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, pursuant to this Section 5, this Corporation, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, or instrument convertible into shares of any such series of Preferred Stock, as the case may be, a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. This Corporation shall, upon the written request furnish or cause to be furnished to such holder a like certificate setting forth (A) such adjustment and readjustment, (B) the Conversion Price at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of a share of such series of Preferred Stock.

(h) NOTICES OF RECORD DATE. In the event of any taking by this Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other

distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, this Corporation shall mail to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock at least 20 days prior to the date specified therein, a notice specifying the date on which by such record is to be taken for the purpose of such dividend, distribution or right and the amount and character of such dividend, distribution or right.

(i) RESERVATION OF COMMON STOCK ISSUABLE UPON CONVERSION. This Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all authorized shares of such series of Preferred Stock, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then authorized shares of such series of Preferred Stock, in addition to such other remedies as shall be available to the holders of such series of Preferred Stock, this Corporation will take such corporate action as may, in the opinion of its counsel be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(j) NOTICES. Any notice required by the provisions of this Section 5 to be given to the holders of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be deemed given if deposited in the United States postage prepaid, and addressed to each holder of record at such holder's address appearing on the books of this Corporation.

6. MERGER; CONSOLIDATION.

(a) If at any time after the effective date hereof there is a merger, consolidation or other corporate reorganization in which stockholders of this Corporation immediately prior to such transaction own less than 50% of the voting securities of the surviving or controlling entity immediately after the transaction, or sale of all or substantially all of the assets of this Corporation (hereinafter, an "Acquisition"), then, as a part of such Acquisition, provision shall be made so that the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and Series E Preferred Stock shall be entitled to receive, prior to any distribution to holders of Common Stock or other junior equity security of the Corporation, the number of shares of stock or other securities or property to be issued to this Corporation or its stockholders resulting from such Acquisition in an amount per share equal to the Original Series A Issue Price, Original Series B Issue Price, Original Series C Issue Price, Original Series D Issue Price and Original Series E Issue Price, as applicable, plus a further amount equal to any dividends declared but unpaid on such shares. Subject to the following sentence, the holders of Common Stock shall thereafter be entitled to receive, pro rata, the remainder of the number of shares of stock or other securities or property to be issued to this Corporation or its stockholders resulting from such Acquisition. Notwithstanding anything to the contrary in this Section 6, in the event the aggregate value of stock, securities and other property to be distributed to this Corporation or its stockholders with

respect to an Acquisition is less than $5.25 per share (such dollar amount to be appropriately adjusted to reflect any subsequent stock splits, stock dividends or other recapitalizations) of Common Stock outstanding (for purpose of this calculation only, including in the number of shares of Common Stock outstanding the number of shares of Common Stock then issuable upon conversion of all outstanding Preferred Stock), then the stock, securities or other property shall be distributed among the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock, Series E Preferred Stock and the Common Stock according to the provisions of Section 3 hereof as if such Acquisition were deemed a liquidation.

(b) Any securities to be delivered to the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock, Series E Preferred Stock and Common Stock pursuant to subsection 6(a) above shall be valued as follows:

(i) Securities not subject to investment letter or other similar restrictions on free marketability;

(A) If traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the 30-day period ending three days prior to the closing;

(B) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever are applicable) over the 30-day period ending three days prior to the closing; and

(C) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by the Corporation and the holders of not less than a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock and Series E Preferred Stock.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in subsections 6(b)(i)(A), (B) or (C) to reflect the approximate fair market value thereof, as mutually determined by this Corporation and the holders of a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class.

(c) In the event the requirements of subsection 6(a) are not complied with, this Corporation shall forthwith either:

(i) cause such closing to be postponed until such time as the requirements of this Section 6 have been complied with, or

(ii) cancel such transaction, in which event the rights, preferences and privileges of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall revert to and be the same as such rights, preferences and privileges existing immediately prior to the date of the first notice referred to in subsection 6(d) hereof.

(d) This Corporation shall give each holder of record of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock written notice of such impending transaction not later than 20 days prior to the stockholders' meeting called to approve such action, or 20 days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the impending transaction and the provisions of this Section 6, and this Corporation shall thereafter give such holders prompt notice of any material changes. The transaction shall in no event take place earlier than 20 days after the Corporation has given the first notice provided for herein or earlier than 10 days after the Corporation has given notice of any material changes provided for herein; provided, however, that such periods may be shortened upon the written consent of the holders of a majority of the then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock voting as a class.

(e) The provisions of this Section 6 are in addition to the protective provisions of Section 8 hereof.

7. VOTING RIGHTS; DIRECTORS.

(a) The holder of each outstanding share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall have the right to one vote for each share of Common Stock into which such outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock could be converted on the record date for the vote or written consent of stockholders. In all cases any fractional share, determined on an aggregate conversion basis, shall be rounded to the nearest whole share. With respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled, notwithstanding any provision hereof to notice of any stockholders' meeting in accordance with the bylaws of this Corporation, and shall be entitled to vote, together with holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote.

(b) Notwithstanding subsection 7(a), (i) so long as at least fifty percent (50%) of the shares of Series A Preferred Stock and Series B Preferred Stock originally issued remain issued and outstanding, the holders of Series A Preferred Stock and Series B Preferred

Stock, voting together as a separate class, shall be entitled to elect one member of the Board of Directors, (ii) so long as at least fifty percent (50%) of the shares of Series C Preferred Stock originally issued remain issued and outstanding, the holders of Series C Preferred Stock, voting as a separate class, shall be entitled to elect one member of the Board of Directors, and (iii) so long as at least fifty percent (50%) of the shares of Series D Preferred Stock originally issued remain issued and outstanding, the holders of Series D Preferred Stock, voting as a separate class, shall be entitled to elect either one or two members of the Board of Directors, as set forth in that certain Amended and Restated Voting Agreement between the Corporation and its stockholders dated on or about August 8, 1997. Any additional directors shall be elected by the holders of Preferred Stock and Common Stock, voting together as one class. In the case of any vacancy in the office of a director elected by the holders of the Series A Preferred Stock and

Series B Preferred Stock, the Series C Preferred Stock or the Series D Preferred Stock pursuant to this subsection 7(b), the holders of a majority of the then voting power of the Series A Preferred Stock and Series B Preferred Stock, the Series C Preferred Stock or the Series D Preferred Stock, as applicable, shall, within sixty (60) days of such vacancy, elect a successor to hold office for the unexpired term of the director whose place shall be vacant. In the case of a vacancy in the office of any other director, the successor of that director shall be elected within sixty (60) days of such vacancy to hold office for the unexpired term of the director whose place shall be vacant, and such successor director shall be elected by the holders of Preferred Stock and Common Stock, voting together as one class. Any director who shall have been so elected may be removed during the aforesaid term of office, whether with or without cause, only by the affirmative vote of the holders of a majority of the voting power of the Series of Preferred Stock which first elected him. This subsection 7(b) shall be void and of no further effect thereafter upon the occurrence of either of the following events:

(i) the closing of a Qualifying Public Offering;

(ii) upon the distribution to the stockholders pursuant to Section 3 or Section 6 hereof of the net proceeds of the sale of all or substantially all the assets of the Corporation.

8. PROTECTIVE PROVISIONS.

(a) In addition to any approvals required by law, so long as shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (voting, as one class, in accordance with Section 7):

(i) sell, convey, or otherwise dispose of all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) in which this Corporation is not the surviving corporation or effect any transaction or series of related transactions in which more than fifty percent (50%) of the voting power of this Corporation is disposed of, provided, however, that this restriction shall not apply to any mortgage, deed of trust, pledge or other encumbrance or hypothecation of the Corporation's or any of its subsidiaries' assets for the purpose of securing any contract or obligation; or

(ii) alter or change the rights, preferences, privileges or restrictions of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock; or

(iii) increase the authorized number of shares of Common Stock or Preferred Stock; or

(iv) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series A Preferred Stock,

Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock with respect to voting, dividends, redemption or

conversion or upon liquidation; or

(v) pay or declare any dividend on its Common Stock or any other junior equity security other than a dividend in Common Stock of this Corporation; or

(vi) change the authorized number of directors; or

(vii) do any act or thing which would result in taxation of the holders of shares of Preferred Stock under section 305(b) of the Internal Revenue Code of 1986, as amended (or any comparable provision of the Internal Revenue Code as hereafter from time to time amended).

(b) In addition to any approvals required by law, so long as shares of Series C Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of and Series C Preferred Stock voting as a single class:

(i) alter or change the rights, preferences, privileges or restrictions of the shares of Series C Preferred Stock; or

(ii) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series C Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation.

(c) In addition to any approvals required by law, so long as shares of Series D Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of and Series D Preferred Stock voting as a single class:

(i) sell, convey, or otherwise dispose of all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) in which this Corporation is not the surviving corporation or effect any transaction or series of related transactions in which more than fifty percent (50%) of the voting power of this Corporation is disposed of, provided, however, that this restriction shall not apply to any mortgage, deed of trust, pledge or other encumbrance or hypothecation of the Corporation's or any of its subsidiaries' assets for the purpose of securing any contract or obligation; or

(ii) alter or change the rights, preferences, privileges or restrictions of the shares of Series D Preferred Stock; or

(iii) increase the authorized number of shares of Series D Preferred Stock; or

(iv) increase the authorized number of directors; or

(v) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series D Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation.

(d) In addition to any approvals required by law, so long as shares of Series E Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of and Series E Preferred Stock voting as a single class:

(i) materially or adversely alter or change the rights, preferences or privileges of the shares of Series E Preferred Stock as a separate series in a manner that is dissimilar and disproportionate relative to the manner in which the rights, preferences or privileges of the other series of Preferred Stock are altered, or

(ii) increase the authorized number of shares of Series E Preferred Stock.

9. STATUS OF REDEEMED OR CONVERTED STOCK. In the event

any shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock shall be redeemed or converted pursuant to Section 4 or 5 hereof the shares so redeemed or converted shall be cancelled and shall not be issuable by this Corporation, and the Certificate of Incorporation of this Corporation shall be appropriately amended to effect the corresponding reduction in this Corporation's authorized capital stock.

10. REPURCHASE OF SHARES. In connection with repurchases by this Corporation of its Common Stock pursuant to agreements with certain of the holders thereof approved by this Corporation's Board of Directors, each holder of Preferred Stock shall be deemed to have waived the application, in whole or in part, of any provisions of the Delaware General Corporation Law or any applicable law of any other state which might limit or prevent or prohibit such repurchases.

C. COMMON STOCK.

1. RELATIVE RIGHTS OF PREFERRED STOCK AND COMMON STOCK. All rights preferences, voting powers, relative, participating optional or other special rights and privileges, and qualifications, limitations, or restrictions of the Common Stock are expressly made subject and subordinate to those that may be fixed with respect to any shares of the Preferred Stock.

2. VOTING RIGHTS. Except as otherwise required by law or this Certificate of Incorporation, each holder of Common Stock shall have one vote in respect of each share of stock held by such holder of record on the books of the Corporation for the election of directors and on all matters submitted to a vote of stockholders of the Corporation.

3. DIVIDENDS. Subject to the preferential rights of the Preferred Stock, the holders of shares of Common Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of the assets of the Corporation which are by law available therefor, dividends payable either in cash, in property or in shares of capital stock.

4. DISSOLUTION, LIQUIDATION OR WINDING UP. In the event of any dissolution, liquidation or winding up of the affairs of the Corporation, after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of the Preferred Stock, holders of Common Stock shall be entitled to participate in any distribution of the assets of the Corporation in accordance with Section 3 of Article IV, Division B hereof.

5. NO PREEMPTIVE RIGHTS. The holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Common Stock shall not have any preemptive rights. The foregoing shall not, however, prohibit the Corporation from granting contractual rights of first refusal to purchase securities to holders of Preferred Stock.

ARTICLE V

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware:

A. The Board of Directors of the Corporation is expressly authorized to adopt, amend or repeal the bylaws of the Corporation; provided, however, that the bylaws may only be amended in accordance with the provisions thereof and, provided further that, the authorized number of directors may be changed only with the approval of the holders of at least a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (voting as one class) in accordance with Section 7 of Article IV Division B.

B. Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

C. The books of the Corporation may be kept at such place within or without the State of Delaware as the bylaws of the Corporation may provide or as may be designated from time to time by the Board of Directors of the Corporation.

ARTICLE VI

A. EXCULPATION.

1. CALIFORNIA. The liability of each and every director of this Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

2. DELAWARE. A director of the Corporation shall not be

personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is hereafter amended to further

reduce or to authorize, with the approval of the Corporation's stockholders, further reductions in the liability of the Corporation's directors for breach of fiduciary duty, then a director of the Corporation shall not be liable for any such breach to the fullest extent permitted by the Delaware General Corporation Law as so amended.

3. CONSISTENCY. In the event of any inconsistency between Sections 1 and 2 of this Division A, the controlling Section, as to any particular issue with regard to any particular matter, shall be the one which provides to the director in question the greatest protection from liability.

B. INDEMNIFICATION.

1. CALIFORNIA. This Corporation is authorized to indemnify the directors and officers of this Corporation to the fullest extent permissible under California law. Moreover, this Corporation is authorized to provide indemnification of (and advancement of expenses to) agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 317 of the California Corporations Code, subject only to applicable limits set forth in Section 204 of the California Corporations Code, with respect to actions for breach of duty to the Corporation and its stockholders.

2. DELAWARE. To the extent permitted by applicable law, this Corporation is also authorized to provide indemnification of (and advancement of expenses to) such agents (and any other persons to which Delaware law permits this Corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the Delaware General Corporation Law, subject only to limits created by applicable Delaware law (statutory or non-statutory), with respect to actions for breach of duty to the Corporation, its stockholders and others.

3. CONSISTENCY. In the event of any inconsistency between Sections 1 and 2 of this Division B, the controlling Section, as to any particular issue with regard to any particular matter, shall be the one which authorizes for the benefit of the agent or other person in question the provision of the fullest, promptest, most certain or otherwise most favorable indemnification and/or advancement.

C. EFFECT OF REPEAL OR MODIFICATION. Any repeal or modification of any of the foregoing provisions of this Article VI shall not adversely affect any right or protection of a director, officer, agent or other person existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director occurring prior to, such repeal or modification.

ARTICLE VII

The Corporation shall have perpetual existence.

ARTICLE VIII

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been executed as of this 22nd day of June 1998.

DIGIRAD CORPORATION

By: /s/ Karen A. Klause

Karen A. Klause, President

[SIGNATURE PAGE TO
RESTATED CERTIFICATE OF INCORPORATION]

EXHIBIT C

LIST OF BORROWER'S US FEDERALLY REGISTERED INTELLECTUAL PROPERTY

[NAMES, APPLICATION OR REGISTRATION NUMBERS AND APPLICATION OR REGISTRATION DATE]

PATENTS AND TRADEMARKS

A. STATUS OF PATENT ACTIVITY

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*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

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B. STATUS OF TRADEMARK ACTIVITY

I. Registration of "Digirad"

Filed Application.....September 6, 1994
Patent Office Action.....February 7, 1995
Amended Application filed.....August 14, 1995
Patent Office Action.....April 23, 1996
Reconsideration requested.....July 5, 1996
Appeal filed.....October 18, 1996
Appeal Brief filed.....December 20, 1996
Examining Attorney's Appeal Brief filed.....March 10, 1997
Notice of Acceptance of Statement of Use.....March 2, 1999

Expected Actions

Await the issuance.

II. Registration of "SpectrumPlus"

Application Serial No. 75/202,359 filed ..... November 22, 1996

III. Registration of "Notebook Imager"

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

EXHIBIT D

PROPOSAL FOR PURCHASE OF NIS FIXED BUSINESS - AUGUST 16, 2000

PROPOSAL FOR PURCHASE OF NIS FIXED BUSINESS
AUGUST 16, 2000

THE PROPOSED TERMS AND CONDITIONS SUMMARIZED HEREIN ARE PROVIDED FOR DISCUSSION PURPOSES ONLY, AND DO NOT CONSTITUTE AN OFFER, AGREEMENT, OR COMMITMENT TO PURCHASE THE ASSETS AS DESCRIBED BELOW. THE ACTUAL TERMS AND CONDITIONS UPON WHICH DIGIRAD CORPORATION ("DIGIRAD") MAY BE PREPARED TO PURCHASE THE "FIXED BUSINESS," OF NUCLEAR IMAGING SYSTEMS, INC. ("NIS") ARE SUBJECT TO SATISFACTORY COMPLETION OF DUE DILIGENCE, REQUISITE BOARD, INVESTOR AND LENDER APPROVALS, SATISFACTORY REVIEW OF DOCUMENTATION AND OTHER TERMS AND CONDITIONS AS ARE DETERMINED BY DIGIRAD AND ITS COUNSEL.

Purchaser	Digirad Corporation or its nominee
Seller	NIS, debtor in possession in Case No. 00-19698 (the "NIS Bankruptcy Case") pending in the United States Bankruptcy Court for the Eastern District of Pennsylvania (the "Bankruptcy Court")
Purchase Price	$3,550,000 composed of: - $2.5 million note payable to DVI, at a fixed rate of interest of 7% per annum payable based on a 30-year amortization schedule, all due and payable in 5 years; secured by the assets currently securing the indebtedness of NIS to DVI, which security interest shall be of first priority; - $1 million note payable to the IRS, at a fixed rate of interest of 8% per annum, payable based on a 30-year amortization schedule, all due and payable in 6 years; unsecured; - $50,000 cash payable within 30 days of the entry of a final order approving the purchase for distribution to general unsecured creditors (excluding DVI and the IRS)
Assets Purchased	All assets of NIS excluding the assets that are the subject of the pending proposal by Digirad to purchase the "Mobile Business". Furthermore: - Assets are to be free and clear of all liens, claims and encumbrances; - Leases of 16 sites are, at Digirad's option after due diligence review, to be

either assumed and assigned to Digirad, or re-negotiated and re-documented in a manner acceptable to Digirad, on a lease-by-lease basis

(i.e., some leases may be assumed and assigned, some renegotiated and some rejected);

- Digirad to be satisfied it has received all necessary radiation and business licenses, whether assumed an assigned or assigned with the consent of the licensor;

- Digirad to be satisfied it is receiving the assignment and transfer of all contracts with doctors and customers, except as Digirad may consent in writing, and there shall be no outstanding liabilities relating to such contracts that are the responsibility of Digirad;

  - customer contracts are to conform to Digirad IDTF status

- Digirad to receive all books, records, and documents (or at least copies), including information on and transfer of all private payor numbers and medicare numbers

- Digirad to succeed, whether through assumption and assignment, or consent, to all contracts with Radiation Safety Officers

Other Terms

Jeff Mandler is to agree to a non-compete agreement;

Jeff Mandler to agree to an employment agreement with Digirad (or its nominee) for a three year term subject to performance standards and financial goals.

- salary of $l50,000 year

- $25,000 bonus subject to achievement of specified targets

- 50,000 shares/year of Digirad stock pursuant to stock options based on achievement of specified targets and a 3 year daily vesting schedule

There are to be no risk of additional tax liabilities, additional liabilities to doctors or customers, labor issues, nor other legal issues with billing practices and company structure

Conditions

Satisfactory due diligence review of financials, contracts, equipment, and customer relationships

Bankruptcy Court shall have approved sale of Mobile Business with final order under Bankruptcy Code Section 363

Confirmation of a consensual plan of reorganization (unless otherwise agreed by Digirad) pursuant to a final order in form and substance

satisfactory to Digirad

MMC shall have entered into and satisfactorily performed the MMC services agreement relating to the Mobile Business purchase and, if Digirad so elects, shall be willing to perform similar services for Digirad relating to the Fixed Business

- There shall have been no defaults under the MMC services Agreement, nor shall it have been terminated for cause

Jeff Mandler and MMC shall have filed bankruptcy petitions or Digirad shall be satisfied that bankruptcy filings are not imminent

SECOND AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

This SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT ("Second Amendment"), dated as of November 27, 2000, is entered into by and between DIGIRAD CORPORATION, a Delaware corporation ("Borrower"), and MMC/GATX PARTNERSHIP NO. I, a California general partnership ("Lender").

RECITALS

A. Borrower and Lender are parties to a Loan and Security Agreement, dated as of October 27, 1999, as amended by a First Amendment to Loan and Security Agreement dated as of August 14, 2000 (as amended, the "Loan Agreement") pursuant to which Lender has provided financing.

B. Borrower has now requested that Lender consent to certain transactions. Lender is willing to do so upon the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. DEFINITIONS; INTERPRETATION. Unless otherwise defined herein, all capitalized terms used herein and defined in the Loan Agreement shall have the respective meanings given to those terms in the Loan Agreement. Other rules of construction set forth in the Loan Agreement, to the extent not inconsistent with this Second Amendment, apply to this Second Amendment and are hereby incorporated by reference.

2. AMENDMENTS TO LOAN AGREEMENT.

(a) CONSENTS.

(i) Lender hereby consents to Borrower's incurrence on or about September 29, 2000 of Indebtedness in the form of a Two Million Dollars ($2,000,000) bridge loan which is not repaid but converts to Borrower's Equity Securities in Borrower's next equity round (collectively the "BRIDGE LOAN").

(ii) Lender hereby consents to Borrower's incurrence of Indebtedness after Borrower's closing of its Next Equity Round:

(1) In the form of a One Million Dollar ($1,000,000) equipment loan from GE Healthcare Services which is secured only by the specific equipment

financed thereunder and the proceeds thereof and, if necessary, a $200,000 letter of credit (collectively, the "GE HEALTHCARE EQUIPMENT LOAN").

(2) In the form of one or more equipment loans in an aggregate amount not to exceed Three Million Dollars ($3,000,000) which is/are secured only by the specific equipment financed thereunder and the proceeds thereof (collectively, the "ADDITIONAL EQUIPMENT LOANS").

(3) Lender hereby consents to the incurrence of Indebtedness by Borrower's Subsidiary, Orion Imaging Systems ("Orion") after the Next Equity Round in the form of an accounts receivable facility initially in the amount of Two Million Five Hundred Thousand Dollars ($2,500,000) but increasing to Five Million Dollars ($5,000,000) within one (1) year from Heller Financial (or other comparable

lender) (collectively, the "HELLER A/R FACILITY") provided the Heller A/R Facility is secured only by Orion's accounts receivable and the proceeds thereof (and not any of the assets or property of Borrower) and the total amount of the Heller A/R Facility cannot exceed 85% of Orion's eligible accounts receivable. In addition, Borrower may guaranty Orion's obligations under the Heller A/R Facility but any such guaranty must be unsecured and subordinated on terms and conditions acceptable to Lender in its sole discretion.

(b) The definition of Permitted Indebtedness in Section 1.01 of the Loan and Security Agreement shall be amended by adding the following subclauses: (g) after the closing of the Next Equity Round, the GE Healthcare Equipment Loan, (h) after the closing of the Next Equity Round, the Additional Equipment Loans; and (i) after the closing of the Next Equity Round, the Heller A/R Facility.

(c) Section 1.01 of the Loan Agreement shall be amended to add the following defined terms in appropriate alphabetical order:

"ADDITIONAL EQUIPMENT" shall have the meaning given such term in Section 2(a) of the Second Amendment to Loan and Security Agreement dated November 27, 2000.

"FIRST LOAN" shall have the meaning given such term in Section 2.01(a).

"GE HEALTHCARE EQUIPMENT LOAN" shall have the meaning given such term in Section 2(a) of the Second Amendment to Loan and Security Agreement dated November 27, 2000.

"HELLER A/R FACILITY" shall have the meaning given such term in Section 2(a) of the Second Amendment to Loan and Security Agreement dated November 27, 2000.

"LOANS" shall have the meaning given such term in Section 2(a) of the Second Amendment to Loan and Security Agreement dated November 27, 2000.

"NEXT EQUITY ROUND" shall mean the Borrower's next equity round closing after October 1, 2000 which yields at least Eight Million Dollars ($8,000,000) net cash proceeds.

"SECOND LOAN" shall have the meaning given such term in Section 2.01(a).

"THIRD LOAN" shall mean the Facility B Loan.

(d) Section 2.01(c) of the Loan Agreement will be changed to read as follows:

(c) PAYMENTS OF PRINCIPAL AND INTEREST. If a Funding Date is not the first day of the month, Borrower shall make an interest only payment on the first Payment Date specified in Lender's Note. For the First Loan, Borrower shall make thirty-six (36) equal monthly payments of principal plus accrued interest on the outstanding principal amount of such Loan commencing on the first Payment Date as set forth in Lender's Note. The payment schedule of the Second Loan shall be amended such that Borrower shall make (in addition to the payments previously made by Borrower through and including November, 2000) twenty-four (24) equal monthly payments of principal plus accrued interest on the outstanding principal amount of the Second Load as set forth in the Amendment to Secured Promissory Note No. 2, executed and delivered concurrently with Borrower's execution and delivery of this Second Amendment. The payment schedule of the Third Loan shall be amended such that Borrower shall make (in addition to the payments previously made by Borrower through and including November, 2000) twenty-four (24) equal monthly payments of principal plus accrued interest on the outstanding principal amount of the Third Loan as set forth in the Amendment to Secured Promissory Note No. 3, executed and delivered concurrently with Borrower's execution and delivery of this Second Amendment.

(e) Section 2.01(d) of the Agreement will be changed to read as follows:

(d) OPTIONAL PREPAYMENT WITH PREMIUM. Upon ten (10) Business Days' prior written notice to Lender, Borrower may, at its option, at any time, prepay all, and not less than all, of a Loan in full at a prepayment price equal to the principal amount of the Loan, plus interest accrued on the Loan through and including the date of such prepayment, plus a

premium on the Loan equal to the Applicable Premium. If an Event of Default occurs and is continuing (other than an Event of Default specified in Section 9.01 h, i, j, k or l, in which case no Applicable Premium is due and payable), and Lender exercises its right under Section 9.02 to accelerate the Loans or the Loans are automatically accelerated, Borrower expressly agrees that the amount then due and payable shall include the Applicable Premium as of the date of such acceleration. In the event that Borrower and the lender of the Indebtedness permitted by clause (e) of the definition of Permitted Indebtedness request Lender's agreement that there be an increase in the amount of such Indebtedness and Lender does not consent (which consent shall be at Lender's sole discretion), Borrower shall be permitted to prepay all Indebtedness hereunder without payment of any Applicable Premium.

(f) Section 5.04 of the Agreement shall be changed to read as follows:

5.04 EQUIPMENT COLLATERAL. On or prior to its execution and delivery of this Agreement, Borrower shall provide Lender with a listing, in detail to Lender's satisfaction, of all of Borrower's equipment, fixtures and personal property other than the equipment financed under the GE Healthcare Equipment Loan and the Additional Equipment Loans (collectively, an "Equipment List"), which, at Lender's option, shall be attached as an exhibit to a UCC financing statement filed by Lender naming Borrower as "debtor" and Lender as "secured party." Within thirty days after the end of every quarter after the date hereof; Borrower shall provide Lender with an Equipment List of equipment, fixtures and personal property acquired by Borrower during such quarter through and including April 27, 2001, and such Equipment List shall, at Lender's option, be attached as an exhibit to a UCC financing statement filed by Lender naming Borrower as "debtor" and Lender as "secured party." Borrower agrees to execute and deliver to Lender any and all such financing statements to Lender. Borrower's equipment, fixtures and personal property acquired alter April 27, 2001 may become Third Party Equipment.

3. INTENTIONALLY OMITTED.

4. CONDITION TO EFFECTIVENESS. The effectiveness of this Amendment is conditioned upon the delivery by Borrower to Lender of the following:

(a) A certificate of the Secretary or the Assistant Secretary of Borrower, in form and substance satisfactory to Lender, certifying the adoption of resolutions of the Board of Directors of Borrower approving this Second Amendment and the transactions contemplated hereby (including the documents described in Section 4(b) and 4(c) below).

(b) The Amendment to Secured Promissory Note No. 2 duly executed and delivered by Borrower.

(c) The Amendment to Secured Promissory Note No. 3 duly executed and delivered by Borrower.

(d) This Second Amendment duly executed and delivered by Borrower.

5. EFFECT OF SECOND AMENDMENT. On and after the date hereof, each reference to the Loan Agreement in the Loan Agreement or in any other document shall mean the Loan Agreement as amended by this Second Amendment. The execution, delivery and effectiveness of this Second Amendment shall not operate as a waiver of any right, power, or remedy of Lender, nor constitute a waiver of any provision of the Loan Agreement.

6. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants to Lender that:

(a) (i) Borrower is a corporation duly organized, validly existing and in good standing under the laws of California and is duly qualified and authorized to do business in the state(s) where Collateral is or will be located; (ii) Borrower has the full corporate power, authority and legal right and has obtained all necessary approvals, consents and given all notices to execute and deliver this Second Amendment, the Amendment to Secured Promissory Note No. 2 and the Amendment to Secured Promissory Note No. 3 and perform the terms thereof; (iii) there is no action, proceeding or claim pending or, insofar as Borrower knows, threatened against Borrower or any of its subsidiaries before any court or administrative agency which might have a materially adverse effect on the

business, condition or operations of Borrower or such subsidiary; and (iv) this Second Amendment, the Amendment to Secured Promissory Note No. 2 and the Amendment to Secured Promissory Note No. 3 have been duly executed and delivered by Borrower and constitutes the valid, binding and enforceable obligation of Borrower.

(b) No Default or Event of Default under the Loan Agreement has occurred and is continuing.

7. FULL FORCE AND EFFECT. Except as amended above, the Loan Agreement remains in full force and effect.

8. HEADINGS. Headings in this Second Amendment are for convenience of reference only and are not part of the substance hereof.

9. GOVERNING LAW. This Second Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

10. COUNTERPARTS. This Second Amendment may be executed in any number of identical counterparts, any set of which signed by all of the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

[Remainder of Page Left Blank Intentionally.]

IN WITNESS WHEREOF, Borrower and Lender have caused this Second Amendment to be executed as of the day and year first above written.

DIGIRAD CORPORATION

By: /s/ Scott Huennekens

Name: Scott Huennekens

Title: President and CEO

MMC/GATX PARTNERS NO. I

By: GATX Capital Corporation, its General Partner

By: /s/ Patricia W. Leicher

Name: Patricia W. Leicher

Title: VP

EXHIBIT A

AMENDMENT TO SECURED PROMISSORY NOTE NO. 2

This Amendment to Secured Promissory Note No. 2 (this "Amendment") amends that certain Secured Promissory Note dated May 12, 2000 (the "Original Note") made by Digirad Corporation ("Borrower") payable to the order of MMC/GATX Partnership No. I, a California general partnership ("Lender") in the original principal amount of One Million Dollars ($1,000,000). Unless otherwise defined in this Amendment, capitalized terms have the meaning given such terms in the Original Note.

Borrower and Lender agree that commencing December 1, 2000 (in addition to the payments previously made by Borrower through and including November 1, 2000), Borrower shall make twenty-four (24) equal monthly payments of principal plus accrued interest on the outstanding principal plus accrued interest on the

outstanding principal amount of the Loan in the amount of $_____.

Except as specifically amended by this Amendment the Original Note remains in full force and effect.

Dated: _____

DIGIRAD CORPORATION	MMC/GATX PARTNERSHIP NO. I By: GATX Capital Corporation, Its general partner
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

DIGIRAD CORPORATION
AMORTIZATION SCHEDULE #2 - REVISED

Loan Amount:	$885,423
Loan Interest Rate:	14.40%
Original Funding Date:	5/16/00
Revised:	11/8/00

PAYMENT NUMBER	DATE	REPAYMENT	PRINCIPAL	INTEREST	TOTAL DEBT SERVICE	PRINCIPAL BALANCE
0**	11/08/00	0.00 $	0.00 $	0.00		$885,422.95

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12/01/00
32,054.13
$10,625.08
$42,679.21
$853,368.82

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------- 2
01/01/01
32,438.78
$10,240.43
$42,679.21
$820,930.03

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------- 3
02/01/01
32,828.05
$ 9,851.16
$42,679.21
$788,101.98

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------- 4
03/01/01
33,221.99
$ 9,457.22
$42,679.21
$754,880.00

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------- 5
04/01/01
33,620.65
$ 9,058.56
$42,679.21
$721,259.35

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------- 6
05/01/01
34,024.10
$ 8,655.11
$42,679.21
$687,235.25

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------- 7
06/01/01
34,432.39
$ 8,246.82
$42,679.21
$652,802.86

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------- 8
07/01/01
34,845.58
$ 7,833.63
$42,679.21
$617,957.28

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------- 9
08/01/01
35,263.72
$ 7,415.49
$42,679.21
$582,693.56

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------- 10
09/01/01
35,686.89
$ 6,992.32
$42,679.21
$547,006.67

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------- 11
10/01/01
36,115.13
$ 6,564.08
$42,679.21
$510,891.54

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------- 12
11/01/01
36,548.51
$ 6,130.70
$42,679.21
$474,343.03

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------- 13
12/01/01
36,987.09
$ 5,692.12
$42,679.21
$437,355.94

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------- 14
01/01/02
37,430.94
$ 5,248.27
$42,679.21
$399,925.00

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------- 15
02/01/02
37,880.11
$ 4,799.10
$42,679.21
$362,044.89

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------- 16
03/01/02
38,334.67
$ 4,344.54
$42,679.21
$323,710.22

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------- 17
04/01/02
38,794.69
$ 3,884.52
$42,679.21
$284,915.53

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------- 18
05/01/02
39,260.22
$ 3,418.99
$42,679.21
$245,655.31

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------- 19
06/01/02
39,731.35
$ 2,947.86
$42,679.21
$205,923.96

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------- 20
07/01/02
40,208.12
$ 2,471.09
$42,679.21
$165,715.84

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------- 21

08/01/02
40,690.62
$ 1,988.59
$42,679.21
$125,025.22

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------- 22
09/01/02
41,178.91
$ 1,500.30
$42,679.21
$
83,846.31

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------- 23
10/01/02
41,673.05
$ 1,006.16
$42,679.21
$
42,173.26

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------- 24
11/01/02
42,173.26
$ 506.08
$42,679.34
$ 0.00 ---

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** ASSUMES NOVEMBER 1, 2000 PAYMENT HAS BEEN MADE.

EXHIBIT B

AMENDMENT TO SECURED PROMISSORY NOTE NO. 3

This Amendment to Secured Promissory Note No. 3 (this "Amendment") amends that certain Secured Promissory Note dated August 21, 2000 (the "Original

Note") made by Digirad Corporation ("Borrower") payable to the order of MMC/GATX Partnership No. I, a California general partnership ("Lender") in the original principal amount of One Million Dollars ($1,000,000). Unless otherwise defined in this Amendment, capitalized terms have the meaning given such terms in the Original Note.

Borrower and Lender agree that commencing December 1, 2000 (in addition to the payments previously made by Borrower through and including November 1, 2000), Borrower shall make twenty-four (24) equal monthly payments of principal plus accrued interest on the outstanding principal plus accrued interest on the outstanding principal amount of the Loan in the amount of $ _____.

Except as specifically amended by this Amendment the Original Note remains in full force and effect.

Dated: _____

DIGIRAD CORPORATION	MMC/GATX PARTNERSHIP NO. I By: GATX Capital Corporation, Its general partner
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

DIGIRAD CORPORATION
AMORTIZATION SCHEDULE #3 - REVISED

Loan Amount:	$954,511.14
Loan Interest Rate:	13.70%
Original Funding Date:	8/15/00
Revised:	11/8/00

PAYMENT NUMBER	DATE	NEW PRINCIPAL REPAYMENT	INTEREST PAYMENT	TOTAL DEBT SERVICE	PRINCIPAL BALANCE
0**					

11/08/00
0.00 $
0.00 $
0.00
$954,511.14

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------- 1
12/01/00
34,796.33
$10,897.34
$45,693.67
$919,714.81

- ---

--- -

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------- 2
01/01/01
35,193.59
$10,500.08
$45,693.67
$884,521.21

- ---

--- -

--- -

------- 3
02/01/01
35,595.39
$10,098.28
$45,693.67
$848,925.83

- ---

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------- 4
03/01/01
36,001.77
$ 9,691.90
$45,693.67
$812,924.06

- ---

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------- 5
04/01/01

36,412.79
$ 9,280.88
$45,693.67
$776,511.27

- --------

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------- 6
05/01/01
36,828.50
$ 8,865.17
$45,693.67
$739,682.77

- --------

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------- 7
06/01/01
37,248.96
$ 8,444.71
$45,693.67
$702,433.81

- --------

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------- 8
07/01/01
37,674.22
$ 8,019.45
$45,693.67
$664,759.60

- --------

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------- 9
08/01/01
38,104.33
$ 7,589.34
$45,693.67
$626,655.27

- --------

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------- 10
09/01/01
38,539.36

$ 7,154.31
$45,693.67
$588,115.91

- --------

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------- 11
10/01/01
38,979.35
$ 6,714.32
$45,693.67
$549,136.56

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------- 12
11/01/01
39,424.36
$ 6,269.31
$45,693.67
$509,712.20

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------- 13
12/01/01
39,874.46
$ 5,819.21
$45,693.67
$469,837.75

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------- 14
01/01/02
40,329.69
$ 5,363.98
$45,693.67
$429,508.06

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------- 15
02/01/02
40,790.12
$ 4,903.55

$45,693.67
$388,717.94

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------- 16
03/01/02
41,255.81
$ 4,437.66
$45,693.67
$347,462.13

- --------

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------- 17
04/01/02
41,726.81
$ 3,966.86
$45,693.67
$305,735.32

- --------

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------- 18
05/01/02
42,203.19
$ 3,490.48
$45,693.67
$263,532.13

- --------

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------- 19
06/01/02
42,685.01
$ 3,008.66
$45,693.87
$220,847.12

- --------

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------- 20
07/01/02
43,172.33
$ 2,521.34
$45,693.67

$177,674.79

- --------

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------- 21
08/01/02
43,665.22
$ 2,028.45
$45,693.67
$134,009.57

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------- 22
09/01/02
44,163.73
$ 1,529.94
$45,693.67
$
89,845.84

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------- 23
10/01/02
44,667.93
$ 1,025.74
$45,693.67
$
45,177.91

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------- 24
11/01/02
45,177.91
$ 515.78
$45,693.69
$ .00 ----

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**ASSUMES NOVEMBER 1, 2000 PAYMENT HAS BEEN MADE

THIRD AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

This THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT ("Third Amendment"), dated as of May 2, 2001, is entered into by and between DIGIRAD CORPORATION, a Delaware corporation ("Borrower"), and MMC/GATX PARTNERSHIP NO. I, a California general partnership ("Lender").

RECITALS

A. Borrower and Lender are parties to a Loan and Security Agreement, dated as of October 27, 1999, as amended by a First Amendment to Loan and Security Agreement dated as of August 14, 2000, as further amended by a Second Amendment to Loan and Security Agreement dated as of November 27, 2000 (as amended, the "Loan Agreement") pursuant to which Lender has provided financing.

B. Borrower has now requested that Lender consent to certain transactions. Lender is willing to do so upon the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. DEFINITIONS; INTERPRETATION. Unless otherwise defined herein, all capitalized terms used herein and defined in the Loan Agreement shall have the respective meanings given to those terms in the Loan Agreement. Other rules of construction set forth in the Loan Agreement, to the extent not inconsistent with this Third Amendment, apply to this Third Amendment and are hereby incorporated by reference.

2. AMENDMENTS TO LOAN AGREEMENT.

(a) Sub-clause (e) of the definition of Permitted Indebtedness in Section 1.01 of the Loan Agreement shall be amended to read in its entirety as follows:

(e) Indebtedness consisting of a revolving credit facility in an aggregate principal amount not exceeding the lessor of: (1) $4,300,000, or (2) a borrowing base calculated as a percentage (not exceeding 100%) of qualified accounts receivable plus eligible inventory; and

(b) The address of Lender in Section 10.05(a) of the Loan Agreement will be changed to read as follows:

MMC/GATX Partnership No. I
C/o GATX Ventures, Inc.
3687 Mount Diablo Blvd., Suite 200
Lafayette, CA 94549
Attention: Contract Administration
PH: (925) 258-6000
Fax: (925) 258-6020

(c) Notwithstanding sub-clause (e) of the definition of Permitted Liens in Section 1.01 of the Loan Agreement and Section 5.05 of the Loan Agreement, Lender hereby consents to Borrower's financing up to $300,000 of equipment (including $200,000 for a phone system) with a separate lender.

4. CONDITION TO EFFECTIVENESS. The effectiveness of this Third Amendment is conditioned upon the delivery by Borrower to Lender of the following:

(a) A fee in the amount of Twenty-Five Thousand Dollars ($25,000) which shall be retained as earned by Lender.

(b) The First Amendment to Intercreditor Agreement, in the form of Exhibit A hereto executed by Silicon Valley Bank.

(c) This Third Amendment duly executed and

delivered by Borrower.

5. EFFECT OF THIRD AMENDMENT. On and after the date hereof, each reference to the Loan Agreement in the Loan Agreement or in any other document shall mean the Loan Agreement as amended by this Third Amendment. The execution, delivery and effectiveness of this Third Amendment shall not operate as a waiver of any right, power, or remedy of Lender, nor constitute a waiver of any provision of the Loan Agreement.

6. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants to Lender that:

(a) (i) Borrower is a corporation duly organized, validly existing and in good standing under the laws of California and is duly qualified and authorized to do business in the state(s) where Collateral is or will be located; (ii) Borrower has the full corporate power, authority and legal right and has obtained all necessary approvals, consents and given all notices to execute and deliver this Third Amendment and perform the terms hereof; (iii) there is no action, proceeding or claim pending or, insofar as Borrower knows, threatened against Borrower or any of its subsidiaries before any court or administrative agency which might have a materially adverse effect on the business, condition or operations of Borrower or such subsidiary; and (iv) this Third Amendment has been duly executed and delivered by Borrower and constitutes the valid, binding and enforceable obligation of Borrower.

(b) No Default or Event of Default under the Loan Agreement has occurred and is continuing.

7. FULL FORCE AND EFFECT. Except as amended above, the Loan Agreement remains in full force and effect.

8. HEADINGS. Headings in this Third Amendment are for convenience of reference only and are not part of the substance hereof.

9. GOVERNING LAW. This Third Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

10. COUNTERPARTS. This Third Amendment may be executed in any number of identical counterparts, any set of which signed by all of the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

[Remainder of Page Left Blank Intentionally.]

IN WITNESS WHEREOF, Borrower and Lender have caused this Third Amendment to be executed as of the day and year first above written.

DIGIRAD CORPORATION

By: /s/ Joyce Mehrbery

Name: Joyce Mehrbery

Title: CFO

MMC/GATX PARTNERSHIP NO. I

By: GATX Capital Corporation, its General Partner

By: /s/ Patricia W. Leicher

Name: Patricia W. Leicher

Title: VP

EXHIBIT A

FIRST AMENDMENT TO INTERCREDITOR AGREEMENT

This First Amendment to Intercreditor Agreement (this "Amendment") amends that certain Intercreditor Agreement dated as of February, 2000 the (Agreement") between MMC/GATX Partnership No. I (MMC/GATX") and Silicon Valley Bank ("Bank"). Unless otherwise defined in this Amendment, capitalized terms have the meaning given such terms in the Agreement.

MMC/GATX and Bank agree that the term "$2,500,000" in the first sentence of Recital B and the third sentence of Section 1.3 shall be replaced with the term "$4,300,000." In addition, the address for notices to MMC/GATX in Section 5 shall be changed to read as follows:

MMC/GATX Partnership No. I
C/o GATX Ventures, Inc.
3687 Mount Diablo Blvd., Suite 200
Lafayette, CA 94549
Attention: Contract Administration
PH: (925) 258-6000
Fax: (925) 258-6020

Except as specifically amended by this Amendment the Agreement remains in full force and effect.

Dated: May __, 2001

SILICON VALLEY BANK	MMC/GATX PARTNERSHIP NO. I By: GATX Capital Corporation, Its general partner
By: ----------	By: ----------
Name: ----------	Name: ----------
Title: ----------	Title: ----------

EXHIBIT 10.4

SECURED PROMISSORY NOTE

$2,000,000 Dated: November 1, 1999

FOR VALUE RECEIVED, the undersigned, DIGIRAD CORPORATION, a Delaware corporation ("BORROWER"), HEREBY PROMISES TO PAY to the order of MMC/GATX PARTNERSHIP NO. I ("LENDER") the principal amount of Two Million Dollars ($2,000,000) or such lesser amount as shall equal the outstanding principal balance of the Loan made to Borrower by Lender pursuant to the Loan and Security Agreement referred to below (the "LOAN AGREEMENT"), and to pay all other amounts due with respect to the Loan on the dates and in the amounts set forth in the Loan Agreement.

Interest on the principal amount of this Note from the date of this Note shall accrue at the Loan Rate or, if applicable, the Default Rate. The Loan Rate for this Note is 13.53% per annum based on a year of twelve 30-day months. Commencing on December 1, 1999, and continuing on the first day of each subsequent month (each, a "PAYMENT DATE"), Borrower shall make to Lender thirty-six (36) equal payments of principal plus accrued interest on the then outstanding principal amount in the amount of $67,899.60.

Principal, interest and all other amounts due with respect to the Loan, are payable in lawful money of the United States of America to Lender by wire transfer according to the wire transfer instructions set forth in the Loan Agreement. The principal amount of this Note and the interest rate applicable thereto, and all payments made with respect thereto, shall be recorded by Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Loan and Security Agreement, dated as of October 27, 1999, to which Borrower and Lender are parties. The Loan Agreement, among other things, (a) provides for the making of a secured Loan to Borrower, and (b) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

This Note may be not be prepaid except as set forth in Section 2.01(d) of the Loan Agreement.

This Note and the obligation of Borrower to repay the unpaid principal amount of the Loan, plus the Applicable Premium, interest on the Loan and all other amounts due Lender under the Loan Agreement is secured under the Loan Agreement.

Presentment for payment, demand, notice of protest and all other demands and notices of any kind in connection with the execution, delivery, performance and enforcement of this Note are hereby waived.

Borrower shall pay all reasonable fees and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred by Lender in the enforcement or attempt to enforce

any of Borrower's obligations hereunder not performed when due. This Note shall be governed by, and construed and interpreted in accordance with, the laws of the State of California.

IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed by one of its officers thereunto duly authorized on the date hereof.

DIGIRAD CORPORATION

By: /s/ Scott Huennekens

Name: Scott Huennekens

Title: Pres. & CEO

EXHIBIT 10.5

SECURED PROMISSORY NOTE

$1,000,000 Dated: May 12, 2000

FOR VALUE RECEIVED, the undersigned, DIGIRAD CORPORATION, a Delaware corporation ("BORROWER"), HEREBY PROMISES TO PAY to the order of MMC/GATX PARTNERSHIP NO. I ("LENDER") the principal amount of One Million Dollars ($1,000,000) or such lesser amount as shall equal the outstanding principal balance of the Loan made to Borrower by Lender pursuant to the Loan and Security Agreement referred to below (the "LOAN AGREEMENT"), and to pay all other amounts due with respect to the Loan on the dates and in the amounts set forth in the Loan Agreement.

Interest on the principal amount of this Note from the date of this Note shall accrue at the Loan Rate or, if applicable, the Default Rate. The Loan Rate for this Note is 14.40% per annum based on a year of twelve 30-day months. Commencing on July 1, 2000, and continuing on the first day of each subsequent month (each, a "PAYMENT DATE"), Borrower shall make to Lender thirty-six (36) equal payments of principal plus accrued interest on the then outstanding principal amount in the amount of $34,372.00.

Principal, interest and all other amounts due with respect to the Loan, are payable in lawful money of the United States of America to Lender by wire transfer according to the wire transfer instructions set forth in the Loan Agreement. The principal amount of this Note and the interest rate applicable thereto, and all payments made with respect thereto, shall be recorded by Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Loan and Security Agreement, dated as of October 27, 1999, to which Borrower and Lender are parties. The Loan Agreement, among other things, (a) provides for the making of a secured Loan to Borrower, and (b) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

This Note may be not be prepaid except as set forth in Section 2.01(d) of the Loan Agreement.

This Note and the obligation of Borrower to repay the unpaid principal amount of the Loan, plus the Applicable Premium, interest on the Loan and all other amounts due Lender under the Loan Agreement is secured under the Loan Agreement.

Presentment for payment, demand, notice of protest and all other demands and notices of any kind in connection with the execution, delivery, performance and enforcement of this Note are hereby waived.

Borrower shall pay all reasonable fees and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred by Lender in the enforcement or attempt to enforce

any of Borrower's obligations hereunder not performed when due. This Note shall be governed by, and construed and interpreted in accordance with, the laws of the State of California.

IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed by one of its officers thereunto duly authorized on the date hereof.

DIGIRAD CORPORATION

By: /s/ Scott Huennekens

Name: Scott Huennekens

Title: Pres. & CEO

AMENDMENT TO SECURED PROMISSORY NOTE NO. 2

This Amendment to Secured Promissory Note No. 2 (this "Amendment") amends that certain Secured Promissory Note dated May 12, 2000 (the "Original Note") made by Digirad Corporation ("Borrower") payable to the order of MMC/GATX Partnership No. I, a California general partnership ("Lender") in the original principal amount of One Million Dollars ($1,000,000). Unless otherwise defined in this Amendment, capitalized terms have the meaning given such terms in the Original Note.

Borrower and Lender agree that commencing December 1, 2000 (in addition to the payments previously made by Borrower through and including November 1, 2000), Borrower shall make twenty-four (24) equal monthly payments of principal plus accrued interest on the outstanding principal plus accrued interest on the outstanding principal amount of the Loan in the amount of $42,679.21.

Except as specifically amended by this Amendment the Original Note remains in full force and effect.

Dated: November 27, 2000

DIGIRAD CORPORATION	MMC/GATX PARTNERSHIP NO. I By: GATX Capital Corporation, Its general partner
By: /s/ Scott Huennekens	By: /s/ Patricia W. Leicher
Name: Scott Huennekens	Name: Patricia W. Leicher
Title: President & CEO	Title: VP

DIGIRAD CORPORATION
AMORTIZATION SCHEDULE #2 - REVISED

Loan Amount:	$885,423
Loan Interest Rate:	14.40%
Original Funding Date:	5/16/00
Revised:	11/8/00

PAYMENT DATE	PRINCIPAL	INTEREST	TOTAL DEBT PRINCIPAL	NUMBER	REPAYMENT	PAYMENT	SERVICE BALANCE --

------ 0**
11/08/00
0.00 $
0.00 $
0.00
$885,422.95

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------- 1
12/01/00
32,054.13
$10,625.08
$42,679.21
$853,368.82

- ---

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------- 2
01/01/01
32,438.78
$10,240.43
$42,679.21
$820,930.03

- ---

--- -

--- -

------- 3
02/01/01
32,828.05
$ 9,851.16
$42,679.21
$788,101.98

- ---

--- -

--- -

------- 4
03/01/01
33,221.99
$ 9,457.22
$42,679.21
$754,880.00

- ---

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------- 5

04/01/01
33,620.65
$ 9,058.56
$42,679.21
$721,259.35

- --------

-------- -

-------- -

------- 6
05/01/01
34,024.10
$ 8,655.11
$42,679.21
$687,235.25

- --------

-------- -

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------- 7
06/01/01
34,432.39
$ 8,246.82
$42,679.21
$652,802.86

- --------

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------- 8
07/01/01
34,845.58
$ 7,833.63
$42,679.21
$617,957.28

- --------

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------- 9
08/01/01
35,263.72
$ 7,415.49
$42,679.21
$582,693.56

- --------

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------- 10
09/01/01

35,686.89
$ 6,992.32
$42,679.21
$547,006.67

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------- 11
10/01/01
36,115.13
$ 6,564.08
$42,679.21
$510,891.54

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------- 12
11/01/01
36,548.51
$ 6,130.70
$42,679.21
$474,343.03

- --------

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------- 13
12/01/01
36,987.09
$ 5,692.12
$42,679.21
$437,355.94

- --------

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------- 14
01/01/02
37,430.94
$ 5,248.27
$42,679.21
$399,925.00

- --------

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------- 15
02/01/02
37,880.11

$ 4,799.10
$42,679.21
$362,044.89

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------- 16
03/01/02
38,334.67
$ 4,344.54
$42,679.21
$323,710.22

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------- 17
04/01/02
38,794.69
$ 3,884.52
$42,679.21
$284,915.53

- --------

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------- 18
05/01/02
39,260.22
$ 3,418.99
$42,679.21
$245,655.31

- --------

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------- 19
06/01/02
39,731.35
$ 2,947.86
$42,679.21
$205,923.96

- --------

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------- 20
07/01/02
40,208.12
$ 2,471.09

$42,679.21
$165,715.84

- --------

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------- 21
08/01/02
40,690.62
$ 1,988.59
$42,679.21
$125,025.22

- --------

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------- 22
09/01/02
41,178.91
$ 1,500.30
$42,679.21
$
83,846.31

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------- 23
10/01/02
41,673.05
$ 1,006.16
$42,679.21
$
42,173.26

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------- 24
11/01/02
42,173.26
$ 506.08
$42,679.34
$ 0.00 ---

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** ASSUMES NOVEMBER 1, 2000 PAYMENT HAS BEEN MADE.

EXHIBIT 10.6

SECURED PROMISSORY NOTE

$1,000,000 Dated: August 15, 2000

FOR VALUE RECEIVED, the undersigned, DIGIRAD CORPORATION, a Delaware corporation ("BORROWER"), HEREBY PROMISES TO PAY to the order of MMC/GATX PARTNERSHIP NO. I ("LENDER") the principal amount of One Million Dollars ($1,000,000) or such lesser amount as shall equal the outstanding principal balance of the Loan made to Borrower by Lender pursuant to the Loan and Security Agreement referred to below (the "LOAN AGREEMENT"), and to pay all other amounts due with respect to the Loan on the dates and in the amounts set forth in the Loan Agreement.

Interest on the principal amount of this Note from the date of this Note shall accrue at the Loan Rate or, if applicable, the Default Rate. The Loan Rate for this Note is 13.70% per annum based on a year of twelve 30-day months. Commencing on October 1, 2000, and continuing on the first day of each subsequent month (each, a "PAYMENT DATE"), Borrower shall make to Lender thirty-six (36) equal payments of principal plus accrued interest on the then outstanding principal amount in the amount of $34,032.00.

Principal, interest and all other amounts due with respect to the Loan, are payable in lawful money of the United States of America to Lender by wire transfer according to the wire transfer instructions set forth in the Loan Agreement. The principal amount of this Note and the interest rate applicable thereto, and all payments made with respect thereto, shall be recorded by Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Loan and Security Agreement, dated as of October 27, 1999 and amended as of August 14, 2000, to which Borrower and Lender are parties. The Loan Agreement, among other things, (a) provides for the making of a secured Loan to Borrower, and (b) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

This Note may be not be prepaid except as set forth in Section 2.01(d) of the Loan Agreement.

This Note and the obligation of Borrower to repay the unpaid principal amount of the Loan, plus the Applicable Premium, interest on the Loan and all other amounts due Lender under the Loan Agreement is secured under the Loan Agreement.

Presentment for payment, demand, notice of protest and all other demands and notices of any kind in connection with the execution, delivery, performance and enforcement of this Note are hereby waived.

Borrower shall pay all reasonable fees and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred by Lender in the enforcement or attempt to enforce

any of Borrower's obligations hereunder not performed when due. This Note shall be governed by, and construed and interpreted in accordance with, the laws of the State of California.

IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed by one of its officers thereunto duly authorized on the date hereof.

DIGIRAD CORPORATION

By: /s/ Scott Huennekens

Name: Scott Huennekens

Title: Pres. & CEO

AMENDMENT TO SECURED PROMISSORY NOTE NO. 3

This Amendment to Secured Promissory Note No. 3 (this "Amendment") amends that certain Secured Promissory Note dated August 21, 2000 (the "Original Note") made by Digirad Corporation ("Borrower") payable to the order of MMC/GATX Partnership No. I, a California general partnership ("Lender") in the original principal amount of One Million Dollars ($1,000,000). Unless otherwise defined in this Amendment, capitalized terms have the meaning given such terms in the Original Note.

Borrower and Lender agree that commencing December 1, 2000 (in addition to the payments previously made by Borrower through and including November 1, 2000), Borrower shall make twenty-four (24) equal monthly payments of principal plus accrued interest on the outstanding principal plus accrued interest on the outstanding principal amount of the Loan in the amount of $ 45,693.67.

Except as specifically amended by this Amendment the Original Note remains in full force and effect.

Dated: November 27, 2000

DIGIRAD CORPORATION	MMC/GATX PARTNERSHIP NO. I By: GATX Capital Corporation, Its general partner
By: /s/ Scott Huennekens	By: /s/ Patricia W. Leicher
Name: Scott Huennekens	Name: Patricia W. Leicher
Title: President & CEO	Title: VP

DIGIRAD CORPORATION
AMORTIZATION SCHEDULE #3 - REVISED

Loan Amount:	$954,511.14
Loan Interest Rate:	13.70%
Original Funding Date:	8/15/00
Revised:	11/8/00

PAYMENT NUMBER	DATE	REPAYMENT	PRINCIPAL	INTEREST	TOTAL DEBT SERVICE	PRINCIPAL BALANCE
0**						

11/08/00
0.00 $
0.00 $
0.00
$954,511.14

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------- 1
12/01/00
34,796.33
$10,897.34
$45,693.67
$919,714.81

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------- 2
01/01/01
35,193.59
$10,500.08
$45,693.67
$884,521.21

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------- 3
02/01/01
35,595.39
$10,098.28
$45,693.67
$848,925.83

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------- 4
03/01/01
36,001.77
$ 9,691.90
$45,693.67
$812,924.06

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------- 5
04/01/01

36,412.79
$ 9,280.88
$45,693.67
$776,511.27

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------- 6
05/01/01
36,828.50
$ 8,865.17
$45,693.67
$739,682.77

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------- 7
06/01/01
37,248.96
$ 8,444.71
$45,693.67
$702,433.81

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------- 8
07/01/01
37,674.22
$ 8,019.45
$45,693.67
$664,759.60

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------- 9
08/01/01
38,104.33
$ 7,589.34
$45,693.67
$626,655.27

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------- 10
09/01/01
38,539.36

$ 7,154.31
$45,693.67
$588,115.91

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------- 11
10/01/01
38,979.35
$ 6,714.32
$45,693.67
$549,136.56

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------- 12
11/01/01
39,424.36
$ 6,269.31
$45,693.67
$509,712.20

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------- 13
12/01/01
39,874.46
$ 5,819.21
$45,693.67
$469,837.75

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------- 14
01/01/02
40,329.69
$ 5,363.98
$45,693.67
$429,508.06

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------- 15
02/01/02
40,790.12
$ 4,903.55

$45,693.67
$388,717.94

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------- 16
03/01/02
41,255.81
$ 4,437.66
$45,693.67
$347,462.13

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------- 17
04/01/02
41,726.81
$ 3,966.86
$45,693.67
$305,735.32

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------- 18
05/01/02
42,203.19
$ 3,490.48
$45,693.67
$263,532.13

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------- 19
06/01/02
42,685.01
$ 3,008.66
$45,693.87
$220,847.12

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------- 20
07/01/02
43,172.33
$ 2,521.34
$45,693.67

$177,674.79

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------- 21
08/01/02
43,665.22
$ 2,028.45
$45,693.67
$134,009.57

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------- 22
09/01/02
44,163.73
$ 1,529.94
$45,693.67
$
89,845.84

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------- 23
10/01/02
44,667.93
$ 1,025.74
$45,693.67
$
45,177.91

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------- 24
11/01/02
45,177.91
$ 515.78
$45,693.69
$ .00 ----

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**ASSUMES NOVEMBER 1, 2000 PAYMENT HAS BEEN MADE

EXHIBIT 10.7

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT is entered into as of April 1, 2000 by and between SILICON VALLEY BANK ("Bank") and DIGIRAD CORPORATION, a Delaware corporation ("Borrower").

RECITALS

Borrower wishes to obtain credit from time to time from Bank, and Bank desires to extend credit to Borrower. This Agreement sets forth the terms on which Bank will advance credit to Borrower, and Borrower will repay the amounts owing to Bank.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Accounts" means all presently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods (excluding, however, such accounts that arise from the licensing of software and other technology but accounts arising from the sale of goods that contain items of software, patent technology, mask works or other technology shall not form part of such exclusion) or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"Advance" or "Advances" means a loan advance under the Committed Revolving Line.

"Affiliate" means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, such Persons, managers and members.

"Bank Expenses" means all reasonable costs or expenses (including reasonable attorneys' fees and expenses) incurred in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; and Bank's reasonable attorneys' fees and expenses incurred in amending, enforcing or defending the Loan Documents, (including fees and expenses of appeal or review, or those incurred in any Insolvency Proceeding) whether or not suit is brought.

"Borrower's Books" means all of Borrower's books and records including, without limitation: ledgers; records concerning Borrower's assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

"Borrowing Base" means an amount equal to (i) Eighty percent (80%) of Eligible Accounts plus (ii) the lesser of Thirty percent (30%) of the value of Borrower's Eligible Inventory (valued at the lower of cost or wholesale fair market value) or Three Hundred Thousand Dollars ($300,000), as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrower, provided that it is understood and agreed that the foregoing advance percentages may be modified based on audits of Collateral conducted on and after the date hereof.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which banks in the State of California are authorized or required to close.

"Closing Date" means the date of this Agreement.

"Code" means the California Uniform Commercial Code.

"Collateral" means the property described on EXHIBIT A attached hereto.

"Committed Revolving Line" means (1) at such time that Borrower has consummated a Financing Transaction from which Borrower receives at least $6,000,000 but less than $7,000,000 in net proceeds and Borrower has given satisfactory evidence thereof to the Bank, a credit extension of up to $1,500,000; (2) at such time that Borrower has consummated a Financing Transaction from which Borrower receives at least $7,000,000 but less than $9,000,000 in net proceeds and Borrower has given satisfactory evidence thereof to the Bank, then such Committed Revolving Line shall mean $2,000,000; (3) at such time that Borrower has consummated a Financing Transaction from which Borrower receives at least $9,000,000 in net proceeds and Borrower has given satisfactory evidence thereof to the Bank, then such Committed Revolving Line shall mean $2,500,000; and (4) otherwise, "Committed Revolving Line" shall mean $300,000; PROVIDED, HOWEVER no Credit Extensions under (1), (2) or (3) above shall be made until such time that the Bank has conducted an audit of the Collateral and the Bank has determined that the results of such audit are acceptable to the Bank in its discretion.

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed, co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable; (ii) any obligations with respect to undrawn letters of credit issued for the account of that Person; and (iii) all obligations arising under any interest rate, currency or commodity swap agreement, interest rate cap agreement, interest rate collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term "Contingent Obligation" shall not include endorsements for collection or deposit in the ordinary course of business. The

amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

"Credit Extension" means each Advance and each other extension of credit by Bank for the benefit of Borrower hereunder.

"Current Assets" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current assets on the consolidated balance sheet of Borrower and its Subsidiaries as at such date.

"Current Liabilities" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current liabilities on the consolidated balance sheet of Borrower and its Subsidiaries, as at such date, plus, to the extent not already included therein, all outstanding Credit Extensions made under this Agreement, including all Indebtedness that is payable upon demand or within one year from the date of determination thereof unless such Indebtedness is renewable or extendable at the option of Borrower or any Subsidiary to a date more than one year from the date of determination, but excluding Subordinated Debt.

"Eligible Accounts" means those Accounts that arise in the ordinary course of Borrower's business that comply with all of Borrower's representations and warranties to Bank set forth in Section 5.4; PROVIDED, that standards of eligibility may be revised from time to time by Bank in Bank's reasonable judgment and upon notification thereof to Borrower in accordance with the provisions hereof. Unless otherwise agreed to by Bank in writing, Eligible Accounts shall not include the following:

(a) Accounts that the account debtor has failed to pay within ninety (90) days of invoice date;

(b) Accounts with respect to an account debtor, 50% of whose Accounts the account debtor has failed to pay within ninety (90) days of invoice date, provided that the foregoing shall be considered to be 25% with respect to the Accounts of NIR as the account debtor thereon;

(c) Accounts with respect to an account debtor, including Affiliates, whose total obligations to Borrower exceed 25% of all Accounts, to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Bank, with the understanding that the foregoing percentage shall be considered to be 75% with respect to the account debtor of NIR;

(d) Accounts with respect to which the account debtor does not have its principal place of business in the United States, provided that the restriction set forth in the clause (d) shall not apply to Accounts arising from Mitsui & Co. Ltd., as account debtor thereunder;

(e) Accounts with respect to which the account debtor is a federal, state, or local governmental entity or any department, agency, or instrumentality thereof, except for those Accounts of the United States or any department, agency or instrumentality thereof as to which the payee has assigned its rights to payment thereof to Bank and the assignment has been acknowledged, pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. 3727), other than Accounts arising from accounts debtors consisting of United States veteran hospitals, National Institute of Health, state and local hospitals or university-affiliated hospitals;

(f) Accounts with respect to which Borrower is liable to the account debtor, but only to the extent of any amounts owing to the account debtor (sometimes referred to as "contra" accounts, e.g. accounts payable, customer deposits, credit accounts etc.);

(g) Accounts generated by demonstration or promotional equipment, or with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold, or other terms by reason of which the payment by the account debtor may be conditional;

(h) Accounts with respect to which the account debtor is an Affiliate, officer, employee, or agent of Borrower;

(i) Accounts with respect to which the account debtor disputes liability or makes any claim with respect thereto as to which Bank believes, in its sole discretion, that there may be a basis for dispute (but only to the extent of the amount subject to such dispute or claim), or is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business;

(j) Accounts the collection of which Bank reasonably determines to be doubtful; and

(k) Accounts which are not Collateral.

"Eligible Inventory" means that portion of Borrower's Inventory consisting of raw materials and finished goods that is located at Borrower's principal place of business, at 9350 Trade Place, San Diego, California 92126, or at such other locations as are permitted under Section 10, that is acceptable to the Bank in its reasonable discretion and that complies with the representations and warranties set forth in Section 5.5, but shall in any event exclude used, returned or obsolete Inventory and shall also exclude all QA Hold-related Inventory.

"Equipment" means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"ERISA" means the Employment Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

"Financing Transaction" means an equity financing transaction of the Borrower or a subordinated debt financing transaction of the Borrower, both of which the Bank has determined to be acceptable to Bank in Bank's reasonable discretion.

"GAAP" means generally accepted accounting principles as in effect in the United States from time to time.

"Indebtedness" means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations and (d) all Contingent Obligations.

"Insolvency Proceeding" means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria,

compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"Intellectual Property" means with respect to the Borrower, (a) any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held; (b) any trademark and serviceman rights, whether registered or not, applications to register and registrations of the same and like protections; (c) all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same; (d) all mask work or similar rights available for the protection of semiconductor chips, now owned or hereafter acquired; (e) all know-how, trade secrets, customer lists (other than in connection with the accounts receivable and the other Collateral), proprietary information (other than in connection with the accounts receivable and the other Collateral and otherwise relating to financial statements of the Borrower), inventions, methods, procedures and formulae; and (f) all rights of publicity, rights to use likenesses and similar rights now owned or hereafter acquired; and proceeds of the foregoing in the form of license fees, royalties, or claims for infringement and the like, in each case relating to any of the foregoing, but Intellectual Property shall not include any goods (or the accounts arising from the sale or other disposition of such goods) that contain items of software, patent technology, mask works or other technology.

"Inventory" means all present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or at any time hereafter owned by or in the custody or possession, actual or constructive, of Borrower, including such inventory as is temporarily out of its custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above.

"Investment" means any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Lien" means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"Loan Documents" means, collectively, this Agreement, any note or notes executed by Borrower, and any other present or future agreement entered into between Borrower and/or for the benefit of Bank in connection with this Agreement, all as amended, extended or restated from time to time.

"Material Adverse Effect" means a material adverse effect on (i) the business operations or condition (financial or otherwise) of Borrower and its Subsidiaries taken as a whole or (ii) the ability of Borrower to repay the Obligations or otherwise perform its obligations under the Loan Documents.

"Maturity Date" means the Revolving Maturity Date.

"Negotiable Collateral" means all of Borrower's present and future letters of credit of which it is a beneficiary, notes, drafts, instruments, securities, documents of title, and chattel paper.

"Obligations" means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other agreement, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise.

"Payment Date" means the first business day of each month commencing on the first such date after the Closing Date and ending on the Revolving Maturity Date.

"Permitted Indebtedness" means:

(a) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and disclosed in the Schedule;

(c) Subordinated Debt;

(d) Indebtedness to trade creditors incurred in the ordinary course of business;

(e) Indebtedness outstanding as of the date hereof due from Borrower to its stockholders/founders in an aggregate amount not exceeding $735,000; and

(f) Indebtedness secured by Permitted Liens, provided that such Indebtedness incurred in the future for the purchase price of or lease of equipment shall not exceed, in the aggregate a total of $1,000,000 at any time outstanding.

"Permitted Investment" means:

(a) Investments existing on the Closing Date disclosed in the Schedule; and

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having the highest rating obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by Bank.

"Permitted Liens" means the following:

(a) Any Liens existing on the Closing Date and disclosed in the Schedule or arising under this Agreement or the other Loan Documents;

(b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and as to which adequate reserves are maintained on Borrower's Books in accordance with GAAP, PROVIDED the same have no priority over any of Bank's security interests;

(c) Liens (i) upon or in any Equipment acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or indebtedness incurred solely for the purpose of financing the acquisition of such Equipment, or (ii) existing on such equipment at the time of its acquisition, PROVIDED that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment;

(d) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (c) above, PROVIDED that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase; and

(e) Licenses with respect to the patents, patent applications, copyrights, processes, proprietary information and related intellectual property assets granted to third parties in the ordinary course of Borrower's business relating to the Borrower's research, development, manufacturing and distribution collaborative efforts with such third parties.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Prime Rate" means the variable rate of interest, per annum, most recently announced by Bank, as its "prime rate," whether or not such announced rate is the lowest rate available from Bank.

"Quick Assets" means, as of any applicable date, the consolidated cash, cash equivalents, accounts receivable and investments with maturities of fewer than 90 days of Borrower determined in accordance with GAAP.

"Rate Reduction Conditions" shall have the meaning ascribed to such term in section 2.3(a) hereof.

"Responsible Officer" means each of the Chief Executive Officer, the President, the Chief Financial Officer and the Controller of Borrower.

"Revolving Maturity Date" means March 31, 2001.

"Schedule" means the schedule of exceptions attached hereto, if any.

"Subordinated Debt" means any debt incurred by Borrower that is subordinated to the debt owing by Borrower to Bank on terms acceptable to Bank (and identified as being such by Borrower and Bank).

"Subsidiary" means with respect to any Person, corporation, partnership, company association, joint venture, or any other business entity of which more than fifty percent (50%) of the voting stock or other equity interests is owned or controlled, directly or indirectly, by such Person or one or more Affiliates of such Person.

"Tangible Net Worth" means as of any applicable date, the consolidated total assets of Borrower and its Subsidiaries MINUS, without duplication, (i) the sum of any amounts attributable to (a) goodwill, (b) intangible items such as unamortized debt discount and expense, patents, trade and service marks and names, copyrights and research and development expenses except prepaid expenses, (c) all reserves not already deducted from assets, AND (ii) Total Liabilities.

"Total Liabilities" means as of any applicable date, any date as of which the amount thereof shall be determined, all obligations that should, in accordance with GAAP be classified as liabilities on the consolidated balance sheet of Borrower, including in any event all Indebtedness, but specifically excluding Subordinated Debt.

1.2 ACCOUNTING AND OTHER TERMS. All accounting terms not specifically defined herein shall be construed in accordance with GAAP and all calculations and determinations made hereunder shall be made in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. The terms "including"/ "includes"

shall always be read as meaning "including (or includes) without limitation", when used herein or in any other Loan Document.

2. LOAN AND TERMS OF PAYMENT

2.1 CREDIT EXTENSIONS. Borrower promises to pay to the order of Bank, in lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Bank to Borrower hereunder. Borrower shall also pay interest on the unpaid principal amount of all Credit Extensions at rates in accordance with the terms hereof.

2.1.1 ADVANCES.

(a) Subject to and upon the terms and conditions of this Agreement, Bank agrees to make Advances to Borrower in an aggregate outstanding amount not to exceed the Committed Revolving Line or the Borrowing Base, whichever is less. Subject to the terms and conditions of this Agreement, amounts borrowed pursuant to this Section 2.1.1 may be repaid and reborrowed at any time during the term of this Agreement.

(b) Whenever Borrower desires an Advance, Borrower will notify Bank by facsimile transmission or telephone no later than 3:00 p.m. Pacific time, on the Business Day that the Advance is to be made. Each such notification shall be promptly confirmed by a Payment/Advance Form in substantially the form of EXHIBIT B hereto. Bank is authorized to make Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer, or without instructions if in Bank's discretion such Advances are necessary to meet Obligations which have become due and remain unpaid. Bank shall be entitled to rely on any telephonic notice given by a person who Bank reasonably believes to be a Responsible Officer or a designee thereof, and Borrower shall indemnify and hold Bank harmless for any damages or loss suffered by Bank as a result of such reliance. Bank will credit the amount of Advances made under this Section 2.1 to Borrower's deposit account.

(c) The Committed Revolving Line shall terminate on the Revolving Maturity Date, at which time all Advances under this Section 2. 1.1 and other amounts due under this Agreement (except as otherwise expressly specified herein) shall be immediately due and payable.

2.2 OVERADVANCES. If, at any time or for any reason, the amount of Obligations owed by Borrower to Bank pursuant to Section 2. 1.1 of this Agreement is greater than the lesser of (i) the Committed Revolving Line or (ii) the Borrowing Base, Borrower shall immediately pay to Bank, in cash, the amount of such excess.

2.3 INTEREST RATES, PAYMENTS, AND CALCULATIONS.

(a) INTEREST RATE. Except as set forth in Section 2.3(b), any Advances shall bear interest, on the average daily balance thereof, at a per annum rate equal to the Prime Rate plus 1.00%, PROVIDED, HOWEVER, if the Borrower satisfies the Rate Reduction Conditions (as defined below), then the Advances shall bear interest, on the average daily balance thereof, at a per annum rate equal to the Prime Rate plus 0.25%, PROVIDED, FURTHER, the foregoing rate reduction is to be considered effective on and after the date that Bank has received and reviewed

Borrower's financial statements evidencing compliance with such Rate Reduction Conditions and Bank determines that such financial statements are acceptable to the Bank. Regardless of the foregoing, under no circumstance shall the foregoing rate reduction become effective at any time that an Event of Default has occurred and is continuing.

As used herein the term "RATE REDUCTION CONDITIONS" shall mean the Borrower's compliance with both the following: (1) Borrower has attained, and maintains, a Tangible Net Worth of at least $4,500,000 and (2) Borrower has attained, and maintains, a ratio of Quick Assets to Current Liabilities of at least 1.00 to 1.

(b) DEFAULT RATE. All Obligations consisting of principal indebtedness shall bear interest, from and after the occurrence of an Event of Default, at a rate equal to five (5) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default.

(c) PAYMENTS. Interest hereunder shall be due and payable on each Payment Date. Borrower hereby authorizes Bank to debit any accounts with Bank, including, without limitation, Account Number 3300119295 for payments of principal and interest due on the Obligations and any other amounts owing by Borrower to Bank. Bank will notify Borrower of all debits which Bank has made against Borrower's accounts. Any such debits against Borrower's accounts in no way shall be deemed a set-off. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder.

(d) COMPUTATION. In the event the Prime Rate is changed from time to time hereafter, the applicable rate of interest hereunder shall be increased or decreased effective as of 12:01 a.m. on the day the Prime Rate is changed, by an amount equal to such change in the Prime Rate. All interest chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

2.4 CREDITING PAYMENTS. Prior to the occurrence of an Event of Default, Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. After the occurrence of an Event of Default, the receipt by Bank of any wire transfer of funds, check, or other item of payment, whether directed to Borrower's deposit account with Bank or to the Obligations or otherwise, shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment in respect of the Obligations unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Bank after 12:00 noon Pacific time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.5 FEES. Borrower shall pay to Bank the following:

(a) FACILITY FEE: UNUSED LINE FEE. A Facility Fee equal to $3,750 plus a variance fee of $1,000 shall be due on the Closing Date; an additional fee shall be due and payable at such time that the amount of the Committed Revolving Line is increased to an amount in excess of $1,500,000 and the amount of such additional fee shall be equal to .25% of the amount of the increase over $1,500,000. Such fees shall be deemed fully earned and

nonrefundable as of the Closing Date. Further, and in addition to the foregoing, Borrower shall pay Bank an unused line fee, in addition to all interest and other fees payable hereunder. The amount of such unused line fee shall be 0.375% per annum multiplied by an amount equal to amount of applicable Committed Revolving Line in effect from time to time MINUS the average daily balance of the outstanding Loans. Such unused line fee shall be computed and paid quarterly, in arrears, on the last day of January, April, July and October of each year, commencing on April 30, 2000.

(b) FINANCIAL EXAMINATION AND APPRAISAL FEES. Bank's customary fees and out-of-pocket expenses for Bank's audits of Borrower's Accounts, subject to the limitations applicable thereto set forth in Section 6.3 hereof, and for each appraisal of Collateral and financial analysis and examination of Borrower performed from time to time by Bank or its agents;

(c) BANK EXPENSES. Upon demand from Bank, including, without limitation, upon the date hereof, all Bank Expenses incurred through the date hereof, including reasonable attorneys' fees and expenses, and, after the date hereof, all Bank Expenses, including reasonable attorneys' fees and expenses, as and when they become due.

2.6 ADDITIONAL COSTS. In case any law, regulation, treaty or official directive or the interpretation or application thereof by any court or any governmental authority charged with the administration thereof or the compliance with any guideline or request of any central bank or other governmental authority (whether or not having the force of law):

(a) subjects Bank to any tax with respect to payments of principal or interest or any other amounts payable hereunder by Borrower or otherwise with respect to the transactions contemplated hereby (except for taxes on the overall net income of Bank imposed by the United States of America or any political subdivision thereof);

(b) imposes, modifies or deems applicable any deposit insurance, reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of, or loans by, Bank; or

(c) imposes upon Bank any other condition with respect to its performance under this Agreement,

and the result of any of the foregoing is to increase the cost to Bank, reduce the income receivable by Bank or impose any expense upon Bank with respect to any loans, Bank shall notify Borrower thereof. Borrower agrees to pay to Bank the amount of such increase in cost, reduction in income or additional expense as and when such cost, reduction or expense is incurred or determined, upon presentation by Bank of a statement of the amount and setting forth

Bank's calculation thereof, all in reasonable detail, which statement shall be deemed true and correct absent manifest error.

2.7 TERM. Except as otherwise set forth herein, this Agreement shall become effective on the Closing Date and, subject to Section 12.7, shall continue in full force and effect for a term ending on the Maturity Date. Notwithstanding the foregoing, Bank shall have the right to terminate its obligation to make Credit Extensions under this Agreement immediately and without notice upon the occurrence and during the continuance of an Event of Default. Notwithstanding termination of this Agreement, Bank's lien on the Collateral shall remain in effect for so long as any Obligations are outstanding.

3. CONDITIONS OF LOANS

3.1 CONDITIONS PRECEDENT TO INITIAL CREDIT EXTENSION. The obligation of Bank to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Agreement;

(b) a certificate of the Secretary of Borrower with respect to the Borrower's certificate of incorporation, bylaws, incumbency and resolutions authorizing the execution and delivery of this Agreement;

(d) financing statements (Forms UCC-1);

(e) insurance certificate;

(f) payment of the fees and Bank Expenses then due specified in Section 2.5 hereof,

(g) Certificate of Foreign Qualification (if applicable);

(h) A subordination agreement entered into between Meier Mitchell & Co. and/or related entities and Bank, which is to be in form acceptable to Bank; and

(i) such other documents, and completion of such other in matters, as Bank may reasonably deem necessary or appropriate.

3.2 CONDITIONS PRECEDENT TO ALL CREDIT EXTENSIONS. The obligation of Bank to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

(a) timely receipt by Bank of the Payment/Advance Form as provided in Section 2.1; and

(b) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Payment/Advance For-m and on the effective date of each Credit Extension as though made at and as of each such date, and no Event

of Default shall have occurred and be continuing, or would result from such Credit Extension. The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this Section 3.2(b).

4. CREATION OF SECURITY INTEREST

4.1 GRANT OF SECURITY INTERESTS. Borrower grants and pledges to Bank a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt payment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Except as set forth in the Schedule, such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will constitute a valid, first priority security interest in Collateral acquired after the date hereof. Borrower acknowledges that Bank may place a "hold" on any Deposit Account pledged as Collateral to secure the Obligations. Notwithstanding termination of this Agreement, Bank's Lien on the Collateral shall remain in effect for so long as any Obligations are outstanding.

4.2 DELIVERY OF ADDITIONAL DOCUMENTATION REQUIRED. Borrower shall from time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all financing statements and other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue perfected Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

4.3 RIGHT TO INSPECT. Bank (through any of its officers, employees, or agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours, to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 DUE ORGANIZATION AND QUALIFICATION. Borrower and each Subsidiary is a corporation duty existing and in good standing under the laws of its state of incorporation and qualified and licensed to do business in, and is in good standing in, any state in which the conduct of its business or its ownership of property requires that it be so qualified.

5.2 DUE AUTHORIZATION; NO CONFLICT. The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Articles/Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound, which default could have a Material Adverse Effect.

5.3 NO PRIOR ENCUMBRANCES. Borrower has good and indefeasible title to the Collateral, free and clear of Liens, except for Permitted Liens.

5.4 BONA FIDE ELIGIBLE ACCOUNTS. The Eligible Accounts are bona fide existing obligations. The service or property giving rise to such Eligible Accounts has been performed or delivered to the account debtor or to the account

debtor's agent for immediate shipment to and unconditional acceptance by the account debtor. Borrower has not received notice of actual or imminent Insolvency Proceeding of any account debtor whose accounts are included in any Borrowing Base Certificate as an Eligible Account.

5.5 MERCHANTABLE INVENTORY. All Inventory is in all material respects of good and marketable quality, free from all material defects.

5.6 [Reserved]

5.7 NAME: LOCATION OF CHIEF EXECUTIVE OFFICE. Except as disclosed in the Schedule, Borrower has not done business and will not without at least thirty (30) days prior written notice to Bank do business under any name other than that specified on the signature page hereof. The chief executive office of Borrower is located at the address indicated in Section 10 hereof.

5.8 LITIGATION. Except as set forth in the Schedule, there are no actions or proceedings pending, or, to Borrower's knowledge, threatened by or against Borrower or any Subsidiary before any court or administrative agency in which an adverse decision could have a Material Adverse Effect or a material adverse effect on Borrower's interest or Bank's security interest in the Collateral.

5.9 NO MATERIAL ADVERSE CHANGE IN FINANCIAL STATEMENTS. All consolidated financial statements related to Borrower and any Subsidiary that have been delivered by Borrower to Bank fairly present in all material respects Borrower's consolidated financial condition as of the date thereof and Borrower's consolidated results of operations for the period then ended. There has not been a material adverse change in the consolidated financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank on or about the Closing Date.

5.10 SOLVENCY. The fair saleable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; the Borrower is not left with unreasonably small capital after the transactions contemplated by this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.11 REGULATORY COMPLIANCE. Borrower and each Subsidiary has met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that could have a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations G, T and U of the Board of Governors of the Federal Reserve System). Borrower has complied with

all the provisions of the Federal Fair Labor Standards Act. Borrower has not violated any statutes, laws, ordinances or rules applicable to it, violation of which could have a Material Adverse Effect.

5.12 ENVIRONMENTAL CONDITION. None of Borrower's or any Subsidiary's properties or assets has ever been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous owners or operators, in the disposal of, or to produce, store, handle, treat, release, or transport, any hazardous waste or hazardous substance other than in accordance with applicable law; to the best of Borrower's knowledge, none of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a hazardous waste or hazardous substance disposal site, or a candidate for closure pursuant to any environmental protection statute; no lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned by Borrower or any Subsidiary; and neither Borrower nor any Subsidiary has received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal, state or other governmental agency concerning any action or omission by Borrower or any Subsidiary resulting in the release, or other disposition of hazardous waste or hazardous substances into the environment.

5.13 TAXES. Borrower and each Subsidiary has filed or caused to be filed all tax returns required to be filed on a timely basis, and has paid, or has made adequate provision for the payment of, all taxes reflected therein.

5.14 SUBSIDIARIES. Borrower does not own any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

5.15 GOVERNMENT CONSENTS. Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings

with, and given all notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted.

5.16 FULL DISCLOSURE. No representation, warranty or other statement made by Borrower in any certificate or written statement furnished to Bank contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in such certificates or statements not misleading.

6. AFFIRMATIVE COVENANTS

Borrower covenants and agrees that, until payment in full of all outstanding Obligations, and for so long as Bank may have any commitment to make a Credit Extension hereunder, Borrower shall do all of the following:

6.1 GOOD STANDING. Borrower shall maintain its and each of its Subsidiaries' corporate existence. and good standing in its jurisdiction of incorporation and maintain qualification in each jurisdiction in which the failure to so qualify could have a Material Adverse Effect. Borrower shall maintain, and shall cause each of its Subsidiaries to maintain, to the extent consistent with prudent management of Borrower's business, in force all licenses, approvals and agreements, the loss of which could have a Material Adverse Effect.

6.2 GOVERNMENT COMPLIANCE. Borrower shall meet, and shall cause each Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, noncompliance with which could have a Material Adverse Effect or a material adverse effect on the Collateral or the priority of Bank's Lien on the Collateral.

6.3 FINANCIAL STATEMENTS, REPORTS, CERTIFICATES. Borrower shall deliver to Bank: (a) as soon as available, but in any event within thirty (30) days after the end of each month, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during such period, in a form and certified by an officer of Borrower reasonably acceptable to Bank; (b) as soon as available, but in any event within one-hundred twenty (120) days after the end of Borrower's fiscal year, audited consolidated financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an unqualified opinion on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank; (c) [reserved]; (d) promptly upon receipt of notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of One Hundred Thousand Dollars ($100,000) or more; and (e) such budgets, sales projections, operating plans or other financial information as Bank may reasonably request from time to time.

Within 30 days after the last day of each month, Borrower shall deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer in substantially the form of EXHIBIT C hereto, an inventory report in form acceptable to Bank, together with aged listings of accounts receivable.

Within thirty (30) days after the last day of each month, Borrower shall deliver to Bank with the monthly financial statements a Compliance Certificate signed by a Responsible Officer in substantially the form of EXHIBIT D hereto.

Bank shall have a right from time to time hereafter to audit Borrower's Accounts and Inventory at Borrower's expense, provided that such audits will be conducted no more often than once every 12 months unless an Event of Default has occurred and is continuing, with the understanding that the first of such audits and an audit of Inventory shall be conducted prior to the making of the first Advance under the Committed Revolving Line. Further, prior to September 30, 2000, an audit with regard to accounts receivable and accounts payable shall be conducted and the results of such audit are to be acceptable to the Bank in its reasonable discretion.

6.4 INVENTORY; RETURNS. Borrower shall keep all Inventory in good and marketable condition, free from all material defects. Returns and allowances, if any, as between Borrower and its account debtors shall be on the same basis and in accordance with the usual customary practices of Borrower, as they exist at the time of the execution and delivery of this Agreement. Borrower shall promptly notify Bank of all returns and recoveries and of all disputes and claims, where the return, recovery, dispute or claim involves more than Fifty Thousand Dollars ($50,000).

6.5 TAXES. Borrower shall make, and shall cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Bank, on demand, appropriate certificates attesting to the payment or deposit thereof; and Borrower will make, and will cause each Subsidiary to make, timely payment or deposit of all material tax payments and withholding taxes required of it by applicable laws, including, but not limited to, those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Bank with proof satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is (i) contested in good faith by appropriate proceedings , (ii) is reserved against (to the extent required by GAAP) by Borrower and (iii) no lien other than a Permitted Lien results.

6.6 INSURANCE.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof. Borrower shall also maintain insurance relating to Borrower's Collateral in amounts and of a type that are customary to businesses similar to Borrower's.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as are reasonably satisfactory to Bank. All such policies of property insurance shall contain a lender's loss payable endorsement, in a form satisfactory to Bank, showing Bank as an additional loss payee thereof and all liability insurance policies shall show the Bank as an additional insured, and shall specify that the insurer must give at least twenty (20) days notice to Bank before canceling its policy for any reason. At Bank's request, Borrower shall deliver to Bank certified copies of such policies of insurance and evidence of the payments of all premiums therefor. All proceeds payable under any such policy shall, at the option of Bank, be payable to Bank to be applied on account of the Obligations.

6.7 PRINCIPAL DEPOSITORY. Borrower shall maintain its principal depository and operating accounts with Bank, provided that it is understood and agreed that the Borrower's investment accounts will be located at institutions other than at the Bank.

6.8 QUICK RATIO. Borrower shall maintain, as of the last day of each calendar month, ratio of Quick Assets to Current Liabilities of at least .50 to 1.0.

6.9 TANGIBLE NET WORTH. Borrower shall maintain, as of the last day of each calendar month, Tangible Net Worth of not less than $3,000,000 when the Committed Revolving Line is $1,500,000, $4,000,000 when the Committed Revolving Line is $2,000,000, and $5,000,000 when the Committed Revolving Line is $2,500,000.

6.10 MINIMUM QUARTERLY REVENUES. Borrower shall achieve the following minimum aggregate revenues for each of the following indicated fiscal quarters: $2,000,000 for the quarter

ending June 30, 2000; $2,900,000 for the quarter ending September 30, 2000; and $3,250,000 for the quarter ending December 31, 2000.

6.11 FURTHER ASSURANCES. At any time and from time to time Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS

Borrower covenants and agrees that, so long as any Credit Extension hereunder shall be available and until payment in full of the outstanding Obligations or for so long as Bank may have any commitment to make any Advances, Borrower will not do any of the following:

7.1 DISPOSITIONS. Convey, sell, lease, transfer or otherwise dispose of (collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than the Intellectual Property and other than Transfers: (i) of inventory in the ordinary course of business, (ii) of licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business consistent with past business practices of the Borrower; (iii) that constitute payment of normal and usual operating expenses in the ordinary course of business; or (iv) of worn-out or obsolete Equipment.

7.2 CHANGES IN BUSINESS, OWNERSHIP OR MANAGEMENT, BUSINESS LOCATIONS. Engage in any business, or permit any of its Subsidiaries to engage

in any business, other than the businesses currently engaged in by Borrower and any business substantially similar or related thereto (or incidental thereto), or suffer a change in Borrower's ownership of greater than 20% or management. Borrower will not, without at least thirty (30) days prior written notification to Bank, relocate its chief executive office or add any new offices or business locations.

7.3 MERGERS OR ACQUISITIONS. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, unless the Borrower is the surviving corporation in the merger and the aggregate value of the assets acquired in the merger do not exceed 25% of Borrower's Tangible Net Worth as of the end of the month prior to the effective date of the merger, and the assets of the corporation or entity acquired in the merger are not subject to any liens or encumbrances, except Permitted Liens.

7.4 INDEBTEDNESS. Create, incur, assume or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness.

7.5 ENCUMBRANCES. Other than with respect to Intellectual Property, create, incur, assume or suffer to exist any Lien with respect to any of its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens.

7.6 DISTRIBUTIONS. Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, other than the payment of no more than $1,500,000 in any fiscal year with respect to the repurchase of stock of the

Borrower, PROVIDED that both before and after giving effect thereto no Event of Default or event with which notice or passage of time or both would constitute an Event of Default, has occurred.

7.7 INVESTMENTS; LOANS; GUARANTEES. Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments, or make any loans of any money or any other assets to any Person, or guarantee or otherwise become liable with respect to the obligations of any other Person, OTHER THAN for the making of loans consisting of travel advances, employee relocation loans and other loans and advances, with all of the foregoing to be in the ordinary course of business of the Borrower consistent with the past business practices of the Borrower, provided that the maximum amount of any loan to any one employee shall not exceed $500,000, PROVIDED, FURTHER, that both before and after giving effect thereto no Event of Default or event with which notice or passage of time or both would constitute an Event of Default, has occurred.

7.8 TRANSACTIONS WITH AFFILIATES. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a nonaffiliated Person.

7.9 RESERVED.

7.10 SUBORDINATED DEBT. Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt without Bank's prior written consent.

7.11 INVENTORY. Store the Inventory with a bailee, warehouseman, or similar party unless Bank has received a pledge of any warehouse receipt covering such Inventory or unless Bank has entered into agreements with such third party as are acceptable to the Bank in its discretion. Except for Inventory sold in the ordinary course of business and except for such other locations as Bank may approve in writing, Borrower shall keep the Inventory only at the location set forth in Section 10 hereof and such other locations of which Borrower gives Bank prior written notice and as to which Borrower signs and files a financing statement where needed to perfect Bank's security interest.

7.12 COMPLIANCE. Become an "investment company" or a company controlled by an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Advance for such purpose; fail to meet the minimum funding requirements of ERISA; permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, which violation could have a Material Adverse Effect or a material

adverse effect on the Collateral or the priority of Bank's Lien on the Collateral; or permit any of its Subsidiaries to do any of the foregoing.

8. EVENTS OF DEFAULT

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1 PAYMENT DEFAULT. If Borrower fails to pay, when due, any of the Obligations.

8.2 COVENANT DEFAULT.

(a) If Borrower fails to perform any obligation under Sections 6.3, 6.6, 6.7, 6.8, 6.9, 6.10, or 6.11 or violates any of the covenants contained in Article 7 of this Agreement, or

(b) If Borrower fails or neglects to perform, keep, or observe any other material term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Bank and as to any default under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure such default within 20 days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the 20 day period or cannot after diligent attempts by Borrower be cured within such 20 day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default (provided that no Advances will be required to be made during such cure period);

8.3 MATERIAL ADVERSE CHANGE. If there (i) occurs a material adverse change in the business, operations, or condition (financial or otherwise) of the Borrower, or (ii) is a material impairment of the prospect of repayment of any portion of the Obligations or (iii) is a material impairment of the value or priority of Bank's security interests in the Collateral;

8.4 ATTACHMENT. If any material portion of Borrower's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within ten (10) days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within ten (10) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower (provided that no Credit Extensions will be required to be made during such cure period);

8.5 INSOLVENCY. If Borrower becomes insolvent, or if an Insolvency Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is

not dismissed or stayed within 30 days (provided that no Advances will be made prior to the dismissal of such Insolvency Proceeding);

8.6 OTHER AGREEMENTS. If there is a default in any agreement to which Borrower is a party with a third party or parties resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of One Hundred Thousand Dollars ($100,000) or that could have a Material Adverse Effect; or any guaranty of the Obligations ceases for any reason to be in full force and effect, or any Guarantor fails to perform any obligation under any such guaranty, or any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth in any such guaranty, or any of the circumstances described in Sections 8.4, 8.5 or 8.8 occur with respect to any Guarantor;

8.7 SUBORDINATED DEBT. If Borrower makes any payment on account of Subordinated Debt, except to the extent such payment is allowed under any subordination agreement entered into with Bank;

8.8 JUDGMENTS. If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least Fifty Thousand Dollars ($50,000) shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of ten (10) days (provided that no Credit Extensions will be made prior to the satisfaction or stay of such judgment);

8.9 MISREPRESENTATIONS. If any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate or writing delivered to Bank by Borrower or any Person acting on Borrower's behalf pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document; or

8.10 FAILURE TO OBTAIN GOVERNMENTAL APPROVAL. If: (A)(i) a product of the Borrower (including, without limitation, the gamma ray camera product) accounts for a material portion of the Borrower's revenues or its projected revenues, and (ii) governmental approvals are required for the sale of such product in a specific market or are required for the use of such product in a particular manner and the sales of such product with respect to such specific market or such use produce a material portion of the revenues arising from such product and (iii) such product fails to obtain approval by all of the appropriate United States governmental authorities or any such approval, once obtained, is thereafter cancelled or otherwise rescinded; PROVIDED that the status of such lack of approval for such product or the status of the cancellation or rescission thereof (any such lack of approval, cancellation or rescission being referred to herein as a "Non-Approval Event") continues for at least a period of 30 days after the initial occurrence of the Non-Approval Event, within which period Borrower seeks to use its best efforts to reverse such Non-Approval Event.

9. BANK'S RIGHTS AND REMEDIES

9.1 RIGHTS AND REMEDIES. Upon the occurrence and during the continuance of an Event of Default, Bank may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5 all Obligations shall become immediately due and payable without any action by Bank);

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement or under any other agreement between Borrower and Bank;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, upon terms and in whatever order that Bank reasonably considers advisable;

(d) Without notice to or demand upon Borrower, make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may designate. Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's premises, Borrower hereby grants Bank a license to enter such premises and to occupy the same, without charge in order to exercise any of Bank's rights or remedies provided herein, at law, in equity, or otherwise;

(e) Without notice to Borrower set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Bank, or (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Bank;

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right, solely pursuant to the provisions of this Section 9. 1, to use, without charge, Borrower's labels, patents, copyrights, mask works, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale', and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit, subject to the provisions of the Supply and Development Agreement dated as of June 23, 1998 between Ethicon Endo-Surgery, Inc. and Borrower;

(g) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Bank determines is commercially reasonable, and apply the proceeds thereof to the Obligations in whatever manner or order it deems appropriate;

(h) Bank may credit bid and purchase at any public sale, or at any private sale as permitted by law; and

(i) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

9.2 POWER OF ATTORNEY. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) endorse Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; and (e) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Bank determines to be reasonable; provided Bank may exercise such power of attorney to sign the name of Borrower on any of the documents described in Section 4.2 regardless of whether an Event of Default has occurred. The appointment of Bank as Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully repaid and performed and Bank's obligation to provide advances hereunder is terminated.

9.3 ACCOUNTS COLLECTION. Upon the occurrence and during the continuance of an Event of Default, Bank may notify any Person owing funds to Borrower of Bank's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower for Bank, receive in trust all payments as Bank's trustee, and if requested or required by Bank, immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

9.4 BANK EXPENSES. If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following: (a) make payment of the same or any part thereof-, (b) set up such reserves under the Committed Revolving Line as Bank deems necessary to protect Bank from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.6 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement.

9.5 BANK'S LIABILITY FOR COLLATERAL. So long as Bank complies with reasonable banking practices, Bank shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral shall be borne by Borrower.

9.6 REMEDIES CUMULATIVE. Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not expressly set forth herein as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given.

9.7 DEMAND; PROTEST. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and

guarantees at any time held by Bank on which Borrower may in any way be liable.

10. NOTICES

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by telefacsimile to Borrower or to Bank, as the case may be, at its addresses set forth below:

If to Borrower
Digirad Corporation
9350 Trade Place
San Diego, California 92126
Attn: President
FAX: 619-549-7714

If to Bank
Silicon Valley Bank
9645 Scranton Road, Suite 110
San Diego, CA 92121
Attn: Manager
FAX: 858-622-1692

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. CHOICE OF LAW AND VENUE; JURY WAIVER

The Loan Documents shall be governed by, and construed in accordance with, the internal laws of the State of California, without regard to principles of conflicts of law. Each of Borrower and Bank hereby submits to the exclusive jurisdiction of the state and Federal courts located in the County of San Diego, State of California. BORROWER AND BANK EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN,

INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

12. GENERAL PROVISIONS

12.1 SUCCESSORS AND ASSIGNS. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; PROVIDED, HOWEVER, that neither this Agreement nor any rights hereunder may be assigned by Borrower without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion. Bank shall have the right without the consent of or notice to Borrower to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

12.2 INDEMNIFICATION. Borrower shall indemnify, defend, protect and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or reasonable Bank Expenses (subject to the applicable limitations set forth in Section 6.3 hereof) in any way suffered, incurred, or paid by Bank as a result of or in any way arising out of, following, or consequential to transactions between Bank and Borrower whether under the Loan Documents, or otherwise (including without limitation reasonable attorneys fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3 TIME OF ESSENCE. Time is of the essence for the performance of all obligations set forth in this Agreement.

12.4 SEVERABILITY OF PROVISIONS. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

12.5 AMENDMENTS IN WRITING, INTEGRATION. This Agreement cannot be amended or terminated except by a writing signed by Borrower and Bank. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement, if any, are merged into this Agreement and the Loan Documents.

12.6 COUNTERPARTS. This Agreement may be executed in any number of

counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement.

12.7 SURVIVAL. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding. The obligations of Borrower to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 12.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

DIGIRAD CORPORATION

By: /s/ Scott Huennekens

Name: Scott Huennekens

Title: President & CEO

By: /s/ illegible

Name:

Title: Vice President & Finance

SILICON VALLEY BANK

By: /s/ illegible

Name:

Title: Senior Vice President

EXHIBIT A

The Collateral shall consist of all right, title and interest of Borrower in and to the following:

(a) All goods and equipment now owned or hereafter acquired, including, without limitation, all machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

(b) All inventory, now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above;

(c) All contract rights and general intangibles now owned or hereafter acquired, including, without limitation, income tax refunds, payments of insurance and rights to payment of any kind;

(d) All now existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower;

(e) All documents, cash, deposit accounts, securities, investment property, letters of credit, certificates of deposit, instruments and chattel paper now owned or, hereafter acquired and Borrower's Books relating to the foregoing; and

(f) All Borrower's Books relating to the foregoing and any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof;

PROVIDED THAT the foregoing shall not include any Intellectual Property (as defined below).

"INTELLECTUAL PROPERTY" means with respect to the Borrower, (a) any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held; (b) any trademark and serviceman rights, whether registered or not, applications to register and registrations of the same and like protections; (c) all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same; (d) all mask work or similar rights available for the protection of semiconductor chips, now owned or hereafter acquired; (e) all know-how, trade secrets, customer lists (other than in connection with the accounts receivable and the other Collateral), proprietary information (other than other than in connection with the accounts receivable and the

other Collateral and otherwise relating to financial statements of the Borrower), inventions, methods, procedures and formulae; and (f) all rights of publicity, rights to use likenesses and similar rights now owned or hereafter acquired; and proceeds of the foregoing in the form of license fees or royalties, claims for infringement and the like, in each case relating to any of the foregoing but Intellectual Property shall not include any goods (or the accounts arising from the sale or other disposition of such goods) that contain items of software, patent technology, mask works or other technology.

EXHIBIT B

LOAN PAYMENT/ADVANCE TELEPHONE REQUEST FORM

DEADLINE FOR SAME DAY PROCESSING IS 3:00 P.M., P.S.T.

TO: CENTRAL CLIENT SERVICE DIVISION DATE: _____

FAX#: (408) ---------- TIME:

FROM: _____
BORROWER'S NAME

FROM: _____
AUTHORIZED SIGNER'S NAME

_____
AUTHORIZED SIGNATURE

PHONE: _____

FROM ACCOUNT # _____ TO ACCOUNT # _____

REQUESTED TRANSACTION TYPE	REQUEST DOLLAR AMOUNT
PRINCIPAL INCREASE (ADVANCE)	$
PRINCIPAL PAYMENT (ONLY)	$
INTEREST PAYMENT (ONLY)	$
PRINCIPAL AND INTEREST (PAYMENT)	$

OTHER INSTRUCTIONS: _____

All representations and warranties of Borrower stated in the Loan and Security Agreement are true, correct and complete in all material respects as of the date

of the telephone request for and Advance confirmed by this Advance Request; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

BANK USE ONLY:

TELEPHONE REQUEST:

The following person is authorized to request the loan payment transfer/loan advance on the advance designated account and is known to me.

Authorized Requester

Authorized Signature (Bank)
Phone #

EXHIBIT C

BORROWING BASE CERTIFICATE

Borrower: Digirad Corporation Bank: Silicon Valley Bank
Commitment Amount: $_____

ACCOUNTS RECEIVABLE			
1. Accounts Receivable Book Value as of _____			$ _____
2. Additions (please explain on reverse)			$ _____
3. TOTAL ACCOUNTS RECEIVABLE			$ _____
ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)			
4. Amounts over 90 days due $ _____			
5. Balance of 50% over 90 day accounts or 25% as to identified accounts		$ _____	
6. Concentration Limits (special limits apply to identified accounts)		$ _____	
7. Foreign Accounts		$ _____	
8. Governmental Accounts		$ _____	
9. Contra Accounts		$ _____	
10. Promotion or Demo Accounts		$ _____	
11. Intercompany/Employee Accounts		$ _____	
11A Accounts that are not otherwise Collateral		$ _____	
12. Other (please explain on reverse)		$ _____	
13. TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS			$ _____
14. Eligible Accounts (#3 minus #13)		$ _____	
15. LOAN VALUE OF ACCOUNTS (80% of #14)			
INVENTORY	$ _____		
16. Inventory Value as of _____		$ _____	
17. LOAN VALUE OF INVENTORY	(30% of #16) (up to 300K)		$ _____
BALANCES			
18. Maximum Loan Amount		$ _____	
19. Total Funds Available [Lesser of # 1 8 or (# 1 5 plus 17)]			$ _____
20. Present balance owing on Line of Credit			$ _____
21. Outstanding under Sublimits ( )		$ _____	
22. RESERVE POSITION (# 1 9 minus #20 and #21)			$ _____

THE UNDERSIGNED REPRESENTS AND WARRANTS THAT THE FOREGOING IS TRUE, COMPLETE AND CORRECT, AND THAT THE INFORMATION REFLECTED IN THIS BORROWING BASE CERTIFICATE COMPLIES WITH THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THE LOAN AND SECURITY AGREEMENT BETWEEN THE UNDERSIGNED AND SILICON VALLEY BANK.

COMMENTS:

==========
BANK USE ONLY
Received By: _____
Date: _____
Reviewed By _____
Compliance Status: Yes / No
==========

By:

Authorized Signer

EXHIBIT D

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK

FROM:

The undersigned authorized officer of DIGIRAD CORPORATION hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true and correct in all material respects as of the date hereof. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The Officer expressly acknowledges that h no borrowings may be requested by the Borrower at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that such compliance is determined not just at the date this certificate is delivered.

PLEASE INDICATE COMPLIANCE STATUS BY CIRCLING YES/NO UNDER "COMPLIES" COLUMN.

REPORTING COVENANT	REQUIRED	COMPLIES
Monthly financial statements	Monthly within 30 days	Yes No
Annual (CPA Audited)	FYE within 120 days	Yes No
A/R Agings; Inventory Rpts	Monthly within 30 days	Yes No

FINANCIAL COVENANT	REQUIRED	ACTUAL	COMPLIES
Maintain on a Monthly Basis: Minimum Quick Ratio	0.50:1.0	_____:1.0	Yes No
Tangible Net Worth $3MM, if applicable			Yes No
$4MM, if applicable			Yes No
$5MM, if applicable			Yes No
Revenues Qtr end 6/30/00:	$2MM		Yes No
Qtr end 9/31/00:	$2.9MM		Yes No
Qtr end 12/31/00:	$3.25MM		Yes No

BANK USE ONLY
Received By: _____
Date: _____
Reviewed By _____
Compliance Status: Yes / No

Comments Regarding Exceptions:
Sincerely,

Date:

SIGNATURE

TITLE

SILICON VALLEY BANK

AMENDMENT TO LOAN AND SECURITY AGREEMENT

BORROWER: DIGIRAD CORPORATION

DATED: AUGUST 2, 2000

THIS AMENDMENT TO LOAN AGREEMENT is entered into between SILICON VALLEY BANK ("Bank") and the borrower named above (the "Borrower"). The Parties agree; to amend the Loan and Security Agreement between them, dated April 1, 2000, as amended or otherwise modified from time to time (the "Loan Agreement"), as follows, effective as of the date hereof. (Capitalized terms used but not defined in this Amendment, shall have the meanings set forth in the Loan Agreement.)

1. REVISED BORROWING BASE DEFINITION. The definition of "Borrowing Base" as set forth in section 1 of the Loan Agreement is hereby amended to read as follows:

"`Borrowing Base' means an amount equal to

(i) Eighty percent (80%) of Eligible Accounts other than Eligible Service Accounts; PLUS

(ii) the lesser of (A) Fifty percent (50%) of Eligible Service Accounts or (B) Forty percent (40%) of all Advances outstanding, PROVIDED that a Collateral audit, with results satisfactory to the Bank, shall be conducted and be determined to be satisfactory to the Bank, in its discretion, prior to the requesting or making of any Advances under this clause (ii); PLUS

(iii) the lesser of (A) Thirty percent (30%) of the value of Borrower's Eligible Inventory (valued at the lower of cost or wholesale fair market value) or (B) Three Hundred Thousand Dollars ($300,000);

With the above to be determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrower, PROVIDED that it is understood and agreed that the foregoing advance percentages may be modified based on audits of Collateral conducted on and after the date hereof."

2. REVISED ELIGIBLE ACCOUNTS. That portion of the definition of "Eligible Accounts" that now reads as follows:

"(e) Accounts with respect to which the account debtor is a federal, state, or local governmental entity or any department, agency, or instrumentality thereof, except for those Accounts of the United States or any department, agency or instrumentality thereof as to which the payee has assigned its rights to payment thereof to Bank and the assignment has been acknowledged, pursuant to the

Assignment of Claims Act of 1940, as amended (31 U.S.C. 3727), other than Accounts arisingfrom accounts debtors consisting of United States veteran hospitals, National Institute of Health, state and

local hospitals or university-affiliated hospitals;"

IS HEREBY AMENDED TO READ AS FOLLOWS:

"(e) Accounts with respect to which the account debtor is a federal, state, or local governmental entity or any department, agency, or instrumentality thereof, except for those Accounts of the United States or any department, agency or instrumentality thereof as to which the payee has assigned its rights to payment thereof to Bank and the assignment has been acknowledged, pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. 3727), other than Accounts arising from accounts debtors consisting of United States veteran hospitals, National Institute of Health, state and local hospitals, university-affiliated hospitals and Accounts where the governmental entity associated with the Medicare program is the account debtor;"

3. ELIGIBLE SERVICE ACCOUNTS. A new definition of "Service Eligible Accounts" is hereby added to section I of the Loan Agreement to follow the definition of "Eligible Inventory," and such new definition shall read as follows:

"Eligible Service Accounts' shall mean those Accounts that arise from provision of adjunct medical services directly by the Borrower and which result in account debtors consisting of governmental entity associated with the Medicare program, third party payors and physicians, PROVIDED that (A) such Accounts otherwise constitute Eligible Accounts and (B) the Accounts where the accounts debtors are individuals who are the direct recipients of the foregoing services shall not be considered Eligible Service Accounts."

Further, for purposes of all provisions of the Loan Agreement, including with respect to the representations and covenants set forth in the Loan Agreement, but OTHER THAN for the determination of the Borrowing Base, the making of Advances and related provisions, Eligible Service Accounts shall be considered Eligible Accounts.

4. LIMITED WAIVER. Silicon and Borrower agree that the Borrower's compliance with the covenant set forth in Section 6.10 of the Loan Agreement is hereby waived for the periods ending June 30, 2000. It is understood by the parties hereto, however, that such waiver does not constitute a waiver of any other provision or term of the Loan Agreement or any related document.

5. REVISION REGARDING COLLATERAL AUDITS. That portion of Section 6.3 of the Loan Agreement that now reads as follows:

"Bank shall have a right from time to time hereafter to audit Borrower's Accounts and Inventory at Borrower's expense, provided that such audits will be conducted no more often than once every 12 months unless an Event of Default has occurred and is continuing, with the understanding that the first of such audits and an audit

of Inventory shall be conducted prior to the making of the first Advance under the Committed Revolving Line. Further, prior to September 30, 2000, an audit with regard to accounts receivable and accounts payable shall be conducted and the results of such audit are to be acceptable to the Bank in its reasonable discretion."

IS HEREBY AMENDED TO READ AS FOLLOWS:

"Bank shall have a right from time to time hereafter to audit Borrower's Accounts and Inventory at Borrower's expense, PROVIDED that such audits will be conducted no more often than once every 12 months, unless an Event of Default has occurred and is continuing (in which case no limitation as to audit frequency shall apply), with the understanding that the first of such audits and an audit of Inventory shall be conducted prior to the making of the first Advance under the Committed Revolving Line, PROVIDED, FURTHER, that Borrower's Accounts relating to payments under Medicare and related programs shall be subject to semi-annual audits, unless an Event of Default has occurred and is continuing (in which case no limitation as to audit frequency shall apply). Further, prior to September 30, 2000, an audit with regard to accounts receivable and accounts payable shall be conducted and the results of such audit are to be acceptable to the Bank in its reasonable discretion."

6. REVISED SECTIONS. Sections 6.8, 6.9 and 6.10 of the Loan Agreement are hereby amended, respectively, to read as follows:

"6.8 QUICK RATIO. Borrower shall maintain, as of the last day of each calendar month, a ratio of Quick Assets to Current Liabilities of at least .80 to 1.0.

6.9 TANGIBLE NET WORTH. Borrower shall maintain, as of the last day of each calendar month, Tangible Net Worth of not less than $4,500,000.

6.l0 [RESERVED].

7. NEW SECTION 6.12. A new section entitled "Section 6.12 Debt/Net Worth Ratio" of the Loan Agreement is hereby added to the Loan Agreement and shall following immediately after section 6.11 of the Loan Agreement and such new section shall read as follows:

"6.12 DEBT/NET WORTH RATIO. A ratio of Total Liabilities to Tangible Net Worth of not more than 2.00 to l.0."

8. REVISED SECTION 8.2(a). Section 8.2(a) of the Loan Agreement is hereby amended to read as follows:

"(a) If Borrower fails to perform any obligation under Sections 6.3, 6.6, 6.7, 6.8, 6.9, 6.10, 6.11 or 6.12 or violates any of the covenants contained in Article 7 of this Agreement, or"

9. CONTEMPLATED ACQUISITIONS. Borrower has informed the Bank that it is undertaking the acquisition of companies in related businesses (the "Proposed Transactions").

Bank hereby acknowledges and agrees that to the extent an Event of Default does not exist either prior to the consummation of such Proposed Transactions or upon the effectiveness thereof and such transactions otherwise comply with section 7.3 of the Loan Agreement, then such Proposed Transactions are permitted occurrences under the Loan Agreement.

10. REPRESENTATIONS TRUE. Borrower represents and warrants to Bank that all representations and warranties in the Loan Agreement, as amended hereby, are true and correct.

11. FEE. Borrower shall pay to Bank a fee of $1,500 in connection herewith, which shall be in addition to interest and to all other amounts payable under the Loan Agreement.

12. GENERAL PROVISIONS. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Bank and the Borrower, and the other written documents and agreements between Bank and the Borrower set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of the Loan Agreement, and all other documents and agreements between Bank and the Borrower shall continue in full force and effect and the same are hereby ratified and confirmed. This Agreement and Consent may be executed in any number of counterparts, which when taken together shall constitute one and the same agreement.

BORROWER:	SILICON:
DIGIRAD CORPORATION	SILICON VALLEY BANK
By:/s/ Scott Huennekans	By: /s/ Susan Worsham
President or Vice President	Title: Vice President

THIS AMENDMENT TO LOAN AGREEMENT (this "Amendment") is entered into between SILICON VALLEY BANK ("Bank") and the borrower named above (the "Borrower"). The Parties agree to amend the Loan and Security Agreement between them, dated April 1, 2000, as amended or otherwise modified from time to time (the "Loan Agreement"), as follows, effective as of the date hereof (Capitalized terms used but not defined in this Amendment, shall have the meanings set forth in the Loan Agreement.)

1. LIMITED CONSENTS.

(a) Anything in the Loan Agreement to the contrary notwithstanding, Bank hereby consents to each of the following; PROVIDED, HOWEVER, that no Event of Default (including without limitation in respect of any financial covenant set forth in the Loan Agreement), or event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default (including without limitation in respect of any financial covenant set forth in the Loan Agreement), has occurred and is continuing, both immediately before and immediately after giving effect thereto:

(i) Borrower's wholly-owned subsidiary, Orion Imaging Systems, Inc. ("Orion"), may incur Indebtedness owing to Heller Financial in anaggregate amount not to exceed $5,000,000 at any one time outstanding (the"Permitted Orion-Heller Indebtedness"). The Permitted Orion-Heller Indebtedness shall constitute Permitted Indebtedness of Orion.

(ii) Solely to secure the Permitted Orion-Heller Indebtedness, Orion may grant a security interest in favor of Heller Financial in solely Orion's "accounts" (as such term is defined in the Code) (the "Permitted Orion-Heller-Lien"). The Permitted Orion-Heller Lien shall constitute a Permitted Lien on the assets of Orion.

(iii) Borrower may guarantee, in favor of Heller Financial, up to a maximum of $2,500,000 in respect of the Permitted Orion-Heller Indebtedness, which guarantee shall be on an unsecured basis (the "Permitted Borrower-Heller Guarantee"). The Permitted Borrower-Heller Guarantee shall constitute Permitted Indebtedness of Borrower.

(b) It is understood by the parties hereto, however, that each of the foregoing limited consents of Bank does not constitute a modification or waiver of any other provision or term of the Loan Agreement or any related document or of any Event of Default.

2. REPRESENTATIONS TRUE. Borrower represents and warrants to Bank that (a) all representations and warranties in the Loan Agreement, as amended hereby, are true and correct, and (b) no Event of Default, or event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default, has occurred and is continuing.

3. FEE; BANK EXPENSES. Borrower shall pay to Bank a fee of $1,000 in connection herewith, which shall be in addition to interest and to all other amounts payable under the Loan Agreement. Without limiting the generality of the foregoing, Borrower shall pay to Bank all Bank Expenses incurred in connection with the preparation (and negotiation, if any), execution, and delivery of this Amendment.

4. GENERAL PROVISIONS. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Bank and the Borrower, and the other written documents and agreements between Bank and the Borrower set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of the Loan Agreement, and all other documents and agreements between Bank and the Borrower shall continue in full force and effect and the same are hereby ratified and confirmed. This Amendment may be executed in any number of counterparts, which when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of this Amendment by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Amendment.

BORROWER:	SILICON:
DIGIRAD CORPORATION	SILICON VALLEY BANK
By:/s/ Joyce Mehrberg	By: /s/ Susan Worsham

President or Vice President Title: Vice President

ACKNOWLEDGED AND AGREED:

ORION IMAGING SYSTEMS, INC.

By:/s/ Joyce Mehrberg
President or Vice President

LOAN MODIFICATION AGREEMENT

This Loan Modification Agreement is entered into as of March 8, 2001, by and between Digirad Corporation (the "Borrower") and Silicon Valley Bank ("Bank").

1. DESCRIPTION OF EXISTING INDEBTEDNESS: Among other indebtedness which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to, among other documents, a Loan and Security Agreement, dated April 1, 2000, as may be amended from time to time, (the "Loan Agreement"). The Loan Agreement provided for, among other things, a Committed Revolving Line in the original principal amount of Two Million Five Hundred Thousand Dollars ($2,500,000). Defined terms used but not otherwise defined herein shall have the same meanings as set forth in the Loan Agreement.

Hereinafter, all indebtedness owing by Borrower to Bank shall be referred to as the "Indebtedness."

2. DESCRIPTION OF COLLATERAL. Repayment of the Indebtedness is secured by the Collateral as described in the Loan Agreement.

Hereinafter, the above-described security documents and guaranties, together with all other documents securing repayment of the Indebtedness shall be referred to as the "Security Documents." Hereinafter, the Security Documents, together with all other documents evidencing or securing the Indebtedness shall be referred to as the "Existing Loan Documents".

3. DESCRIPTION OF CHANGE IN TERMS.

A. MODIFICATION(S) TO LOAN AGREEMENT.

1. The following defined term under Section 1.1 entitled "Definitions" is hereby amended as ollows:

"Revolving Maturity Date" means April 30, 2001.

2. Notwithstanding the terms and conditions contained in Section 7.7 entitled "Investments; Loans; Guarantees", Bank hereby consents to Borrower guaranteeing specific lien lease financing for its subsidiary Orion imaging Systems, provided such amount does not to exceed $1,625,000.

4. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

5. NO DEFENSES OF BORROWER. Borrower (and each guarantor and pledgor signing below) agrees that, as of the date hereof, it has no defenses against the obligations to pay any amounts under the Indebtedness.

6. CONTINUING VALIDITY. Borrower (and each guarantor and pledgor signing below) understands and agrees that in modifying the existing Indebtedness, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents.

Except as expressly modified pursuant to this Loan Modification Agreement , the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank's agreement to modifications to the existing Indebtedness pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Indebtedness. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Indebtedness. It is the intention of Bank and Borrower to retain as liable parties all makers and endorsers of Existing Loan Documents, unless the party is expressly released by Bank in writing. Unless expressly released herein, no maker, endorser, or guarantor will be released by virtue of this Loan Modification Agreement. The terms of this paragraph apply not only to this LoanModification Agreement, but

also to all subsequent loan modification agreements.

This Loan Modification Agreement is executed as of the date first written above.

BORROWER:	SILICON:
DIGIRAD CORPORATION	SILICON VALLEY BANK
By:/s/ Joyce Mehrberg	By:/s/ Linda S. Le Beard
Name: Joyce Mehrberg	Name: Linda S. Le Beard
Title: CFO	Title: SVP

LOAN MODIFICATION AGREEMENT

This Loan Modification Agreement is entered into as of April 26, 2001, by and between Digirad Corporation (jointly and severally, the "Borrower") and Silicon Valley Bank ("Bank").

1. DESCRIPTION OF EXISTING INDEBTEDNESS: Among other indebtedness which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to, among other documents, a. Loan and Security Agreement, dated April 1, 2000, as may be amended from time to time, (the "Loan Agreement"). The Loan Agreement provided for, among other things, a Committed Revolving Line in the original principal amount of Two Million Five Hundred Thousand Dollars ($2,500,000). Defined terms used but not otherwise defined herein shall have the same meanings as set forth in the Loan Agreement.

Hereinafter, all indebtedness owing by Borrower to Bank shall be referred to as the "Indebtedness."

2. DESCRIPTION OF COLLATERAL. Repayment of the Indebtedness is secured by the Collateral as described in the Loan Agreement.

Hereinafter, the above-described security documents and guaranties, together with all other documents securing repayment of the Indebtedness shall be referred to as the "Security Documents". Hereinafter, the Security Documents, together with all other documents evidencing or securing the Indebtedness shall be referred to as the "Existing Loan Documents".

3. DESCRIPTION OF CHANGE IN TERMS.

A. MODIFICATION(S) TO LOAN AGREEMENT.

1. Section 1.1 entitled "Definitions and Construction" is hereby amended to read as follows:

"Revolving Maturity Date" means May 31, 2001.

4. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

5. NO DEFENSES OF BORROWER. Borrower (and each guarantor and pledgor signing below) agrees that, as of the date hereof, it has no defenses against the obligations to pay any amounts under the Indebtedness.

6. CONCERNING REVISED ARTICLE 9 OF THE UNIFORM COMMERCIAL CODE. The Borrower affirms and reaffirms that notwithstanding the terms of the Security Documents to the contrary, (i) that the definition of "Code", "UCC" or "Uniform Commercial Code" as set forth in the Security Documents shall be deemed to mean and refer to "the Uniform Commercial Code as adopted by the State of California, as may be amended and in effect from time to time and (ii) the Collateral is all assets of the Borrower, as set forth in the Loan Agreement. In connection therewith, the Collateral shall include, without limitation, the following categories of assets as defined in the Code: goods (including inventory, equipment and any accessions

thereto), instruments (including promissory notes), documents, accounts (including health-care insurance receivables, and license fees), chattel paper (whether tangible or electronic), deposit accounts, letter-of-credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, general intangibles (including payment intangibles and software, as set forth in the Loan Agreement, supporting obligations and any and all proceeds of any thereof, wherever located, whether now owned or hereafter acquired.

7. CONTINUING VALIDITY. Borrower (and each guarantor and pledgor signing below) understands and agrees that in modifying the existing Indebtedness, Bank is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank's agreement to modifications to the existing indebtedness pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Indebtedness. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Indebtedness. It is the intention of Bank and Borrower to retain as liable parties all makers and endorsers of Existing Loan Documents, unless the party is expressly released by Bank in writing. Unless expressly released herein, no maker, endorser, or guarantor will be released by virtue of this Loan Modification Agreement. The terms of this paragraph apply not only to this Loan Modification Agreement but also to all subsequent loan modification agreements.

This Loan Modification Agreement is executed as of the date first written above.

BORROWER:	SILICON:
DIGIRAD CORPORATION	SILICON VALLEY BANK
By: /s/ Joyce Mehrberg	By: /s/ Linda S. Le Beard
Name: Joyce Mehrberg	Name: Linda S. Le Beard
Title: CFO	Title: Senior Vice President

SILICON VALLEY BANK

AMENDMENT TO LOAN AGREEMENT

BORROWER: DIGIRAD CORPORATION

DATED: DATE: JULY 31, 2001

THIS AMENDMENT TO LOAN DOCUMENTS is entered into between SILICON VALLEY BANK ("Silicon") and the borrower named above (the "Borrower"), with reference to the various loan and security agreements and other documents, instruments and agreements between them, including but not limited to that certain Loan and Security Agreement dated April 1, 2000 (as amended, if at all, the "Existing Loan Agreement"; the Existing Loan Agreement and all related documents, instruments and agreements may be referred to collectively herein as the "Existing Loan Documents").

The Parties agree to amend the Existing Loan Documents, as follows:

1. PRESENT LOAN BALANCE. Borrower acknowledges that the present unpaid principal balance of the Borrower's indebtedness, liabilities and obligations to Silicon under the Existing Loan Documents, including interest accrued through July 31, 2001 is $2,396,359.00 (the "Present Loan Balance", and that said sum is due and owing without any defense, offset, or counterclaim of any kind.

2. AMENDMENT TO EXISTING LOAN DOCUMENTS. The Existing Loan Documents are hereby amended in their entirety to read as set forth in the Loan and Security Agreement, and related documents, being executed concurrently (collectively, the "New Loan Documents"). The Borrower acknowledges that the Present Loan Balance shall be the opening balance of the Loans pursuant to the New Loan Documents as of the date hereof, and shall, for all purposes, be deemed to be Loans made by Silicon to the Borrower pursuant to the New Loan Documents. Notwithstanding the execution of the New Loan Documents, the following Existing Loan Documents shall continue in full force and effect and shall continue to secure all present and future indebtedness, liabilities, guarantees and other Obligations (as defined in the New Loan Documents): All standard documents of Silicon entered into by the Borrower in connection with Letters of Credit and/or Foreign Exchange Contracts; all security agreements, collateral assignments and mortgages, including but not limited to those relating to patents, trademarks, copyrights and other intellectual property; all lockbox agreements and/or blocked account agreements; and all UCC-1 financing statements and other documents filed with governmental offices which perfect liens or security interests in favor of Silicon. In addition, in the event the Borrower has previously issued any stock options, stock purchase warrants or securities to Silicon, the same and all documents and agreements relating thereto shall also continue in full force and effect.

3. GENERAL PROVISIONS. This Amendment and the New Loan Documents

set fort in full all of the representations and agreements of the parties with respect to the subject matter

hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof.

BORROWER:	SILICON:
DIGIRAD CORPORATION	SILICON VALLEY BANK
By: /s/ Scott Huennekens	By: /s/ illegible
President or Vice President	Title: Senior Vice President
By: /s/ illegible	
Secretary or Ass't Secretary	

SILICON VALLEY BANK

LOAN AND SECURITY AGREEMENT

BORROWER: DIGIRAD CORPORATION
ADDRESS: 9350 TRADE PLACE
SAN DIEGO, CA 92126

DATED: JULY 31, 2001

THIS LOAN AND SECURITY AGREEMENT is entered into on the above date between SILICON VALLEY BANK, COMMERCIAL FINANCE DIVISION ("Silicon"), whose address is 3003 Tasman Drive, Santa Clara, California 95054 and the borrower(s) named above (jointly and severally, the "Borrower"), whose chief executive office is located at the above address ("Borrower's Address"). The Schedule to this Agreement (the "Schedule") shall for all purposes be deemed to be a part of this Agreement, and the same is an integral part of this Agreement. (Definitions of certain terms used in this Agreement are set forth in Section 8 below.)

1. LOANS.

1.1 LOANS. Silicon will make. loans to Borrower (the "Loans"), in amounts determined by Silicon in its* up to the amounts (the "Credit Limit") shown on the Schedule, provided no Default or Event of Default has occurred and is continuing, and subject to deduction of any Reserves for accrued interest and such other Reserves as Silicon deems proper from time to time**.

* GOOD-FAITH BUSINESS JUDGMENT,

** IN ITS GOOD-FAITH BUSINESS JUDGMENT

1.2 INTEREST. All Loans and all other monetary Obligations shall bear interest at the rate shown on the Schedule, except where expressly set forth to the contrary in this Agreement. Interest shall be payable monthly, on the last day of the month. Interest may, in Silicon's discretion, be charged to Borrower's loan account, and the same shall thereafter bear interest at the same rate as the other Loans. Silicon may, in its discretion, charge interest to Borrower's Deposit Accounts maintained with Silicon. Regardless of the amount of Obligations that may be out-standing from time to time, Borrower shall pay Silicon minimum monthly interest during the term of this Agreement in the amount set forth on the Schedule (the "Minimum Monthly Interest").

1.3 OVERADVANCES. If at any time or for any reason the total of all outstanding Loans and all other Obligations exceeds the Credit Limit (an "Overadvance"), Borrower shall immediately pay the amount of the excess to Silicon, without notice or demand. Without limiting Borrower's obligation to repay to Silicon on demand the amount of any Overadvance, Borrower agrees to pay Silicon interest on the outstanding amount of any Overadvance, on demand, at a rate equal to the interest rate which would otherwise be applicable to the Overadvance, plus an additional 2% per annum.

1.4 FEES. Borrower shall pay Silicon the fee(s) shown on the Schedule, which are in addition to all interest and other sums payable to Silicon and are not refundable.

1.5 LETTERS OF CREDIT. [Not Applicable]

2. SECURITY INTEREST.

2.1 SECURITY INTEREST. To secure the payment and performance of all of the Obligations when due, Borrower hereby grants to Silicon a security interest in all of Borrower's interest in the following, whether now owned or hereafter acquired, and wherever located: All Inventory, Equipment, Receivables, and General Intangibles, including, without limitation, all of Borrower's Deposit Accounts, and all money, and all property now or at any time in the future in Silicon's possession (including claims and credit balances), and all proceeds (including proceeds of any insurance policies, proceeds of proceeds and claims against third parties), all products and all books and records related to any of the foregoing (all of the foregoing, together with all other property in which Silicon may now or in the future be granted

a lien or security interest, is referred to herein, collectively, as the "Collateral").*

*NOTWITHSTANDING THE FOREGOING, PROVIDED THAT (a) NO DEFAULT OR EVENT OF DEFAULT HAS OCCURRED AND IS CONTINUING, (b) BORROWER COMPLETES AN INITIAL PUBLIC OFFERING OF EQUITY SECURITIES OF BORROWER THAT GENERATES NET PROCEEDS OF AT LEAST $35,000,000 (THE "IPO"), (c) IMMEDIATELY FOLLOWING THE CONCLUSION OF THE IPO BORROWER HAS MINIMUM CASH (OR CASH EQUIVALENTS ACCEPTABLE TO SILICON) LIQUIDITY MAINTAINED AT SILICON OF NOT LESS THAN $5,000,000 AND (d) BORROWER EXECUTES AND DELIVERS TO SILICON, ON SILICON'S STANDARD FORM, A NEGATIVE PLEDGE AGREEMENT REGARDING THE BORROWER'S INTELLECTUAL PROPERTY, SILICON AGREES TO RELEASE ITS LIENS ON AND SECURITY INTERESTS IN ALL OF BORROWER'S INTELLECTUAL PROPERTY. ALSO NOTWITHSTANDING THE FOREGOING, THE TERM "COLLATERAL" DOES NOT INCLUDE ANY LICENSE AGREEMENTS OR CONTRACT RIGHTS (UNDER WHICH BORROWER IS THE LICENSEE, LESSEE OR OTHER SIMILARLY SITUATED PARTY) TO THE EXTENT (i) THE GRANTING OF A SECURITY INTEREST IN IT WOULD BE CONTRARY TO APPLICABLE LAW, OR (ii) THAT SUCH RIGHTS ARE NONASSIGNABLE BY THEIR TERMS (BUT ONLY TO THE EXTENT SUCH PROHIBITION IS ENFORCEABLE UNDER APPLICABLE LAW, INCLUDING, WITHOUT LIMITATION, SECTION 9318(4) OF THE CALIFORNIA UNIFORM COMMERCIAL CODE) WITHOUT THE CONSENT OF THE LICENSOR OR OTHER PARTY (BUT ONLY TO THE EXTENT SUCH CONSENT HAS NOT BEEN OBTAINED); NEVERTHELESS, THE FOREGOING, GRANT OF SECURITY INTEREST SHALL EXTEND TO, AND THE TERM "COLLATERAL" SHALL INCLUDE, ANY AND ALL PROCEEDS OF SUCH LICENSE AGREEMENTS OR CONTRACT RIGHTS TO THE EXTENT THAT THE ASSIGNMENT OR ENCUMBERING OF SUCH PROCEEDS IS NOT SO RESTRICTED (INCLUDING, WITHOUT LIMITATION, THE PROCEEDS OF SUCH LICENSE AGREEMENTS OR CONTRACT RIGHTS FOR WHICH ANY REQUIRED CONSENT HAS BEEN OBTAINED).

3. REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER.

In order to induce Silicon to enter into this Agreement and to make Loans, Borrower represents and warrants to Silicon as follows, and Borrower covenants that the following representations will continue to be true, and that Borrower will at all times comply with all of the following covenants:

3.1 CORPORATE EXISTENCE AND AUTHORITY. Borrower, if a corporation, is and will continue to be, duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Borrower is and will continue to be qualified and licensed to do business in all jurisdictions in which any failure to do so would have a material adverse effect on Borrower. The execution, delivery and performance by Borrower of this Agreement, and all other documents contemplated hereby (i) have been duly and validly authorized, (ii) are enforceable against Borrower in accordance with their terms (except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally), and (iii) do not violate Borrower's articles or certificate of incorporation, or Borrower's by-laws, or any law or any material agreement or instrument which is binding upon Borrower or its property, and (iv) do not constitute grounds for acceleration of any material indebtedness or obligation under any material agreement or instrument which is binding upon Borrower or its property.

3.2 NAME, TRADE NAMES AND STYLES. The name of Borrower set forth in the heading to this Agreement is its correct name. Listed on the Schedule are all prior names of Borrower and all of Borrower's present and prior trade names. Borrower shall give Silicon 30 days' prior written notice before changing its name or doing business under any other name. Borrower has complied, and will in the future comply, with all laws relating to the conduct of business under a fictitious business name.

3.3 PLACE OF BUSINESS, LOCATION OF COLLATERAL. The address set forth in the heading to this Agreement is Borrower's chief executive office. In addition, Borrower has places of business and Collateral is located only at the locations set forth on the Schedule. Borrower will give Silicon at least 30 days prior written notice before opening any additional place of business, changing its chief executive office, or moving any of the Collateral to a location other than Borrower's Address or one of the locations set forth on the Schedule.*

*NOTWITHSTANDING THE FOREGOING, BORROWER REPRESENTS AND WARRANTS THAT ALL OF BORROWER'S LOCATIONS OUTSIDE OF CALIFORNIA ARE SALES OFFICES ONLY WITH LITTLE OR NO ASSETS. ADDITIONALLY, DURING THE TERM OF THIS AGREEMENT, BORROWER SHALL NOT TRANSFER ANY ASSETS TO ANY SUBSIDIARY.

3.4 TITLE TO COLLATERAL; PERMITTED LIENS. Borrower is now, and will at all times in the future be, the sole owner of all the Collateral, except for items of Equipment which are leased by Borrower. The Collateral now is and will remain free and clear of any and all liens, charges, security interests,

encumbrances and adverse claims, except for Permitted Liens. Silicon now has, and will continue to have, a first-priority perfected and enforceable security interest in all of the Collateral, subject only to the Permitted Liens, and Borrower will at all times defend Silicon and the Collateral against all claims of others. None of the Collateral now is or will be affixed to any real property in such a manner, or with such intent, as to become a fixture. Borrower is not and will not become a lessee under any real property lease pursuant to which the lessor may obtain any rights in any of the Collateral and no such lease now prohibits, restrains, impairs or will prohibit, restrain or impair Borrower's right to remove any Collateral from the leased premises. Whenever any Collateral is located upon premises in which any third party has an interest (whether as owner, mortgagee, beneficiary under a deed of trust, lien or otherwise), Borrower shall, whenever requested by Silicon, use its best efforts to cause such third party to execute and deliver to Silicon, in form acceptable to Silicon, such waivers and subordinations as Silicon shall specify, so as to ensure that Silicon's rights in the Collateral are, and will continue to be, superior to the rights of any such third party. Borrower will keep in full force and effect, and will comply with all the terms of, any lease of real property where any of the Collateral now or in the future may be located.

3.5 MAINTENANCE OF COLLATERAL. Borrower will maintain the Collateral in good working condition, and Borrower will not use the Collateral for any unlawful purpose. Borrower will immediately advise Silicon in writing of any material loss or damage to the Collateral.

3.6 BOOKS AND RECORDS. Borrower has maintained and will maintain at Borrower's Address complete and accurate books and records, comprising an accounting system in accordance with generally accepted accounting principles.

3.7 FINANCIAL CONDITION, STATEMENTS AND REPORTS. All financial statements now or in the future delivered to Silicon have been, and will be, prepared in conformity with generally accepted accounting principles and now and in the future will completely and accurately reflect the financial condition of Borrower, at the times and for the periods therein stated. Between the last date covered by any such statement provided to Silicon and the date hereof, there has been no material adverse change in the financial condition or business of Borrower. Borrower is now and will continue to be solvent.

3.8 TAX RETURNS AND PAYMENTS; PENSION CONTRIBUTIONS. Borrower has timely filed, and will timely file, all tax returns and reports required by foreign, federal, state and local law, and Borrower has timely paid, and will timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions now or in the future owed by Borrower. Borrower may, however, defer payment of any contested taxes, provided that Borrower (i) in good faith contests Borrower's obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (ii) notifies Silicon in writing of the commencement of, and any material development in, the proceedings, and (iii) posts bonds or takes any other steps required to keep the contested taxes from becoming a lien upon any of the Collateral. Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid, and shall continue to pay all amounts necessary to fund all present and future pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not and will not withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any such plan which could result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency. Borrower shall, at all times, utilize the services of an outside payroll service providing for the automatic deposit of all payroll taxes payable by Borrower.

3.9 COMPLIANCE WITH LAW. Borrower has complied, and will comply, in all material respects, with all provisions of all foreign, federal, state and local laws and regulations relating to Borrower, including, but not limited to, those relating to Borrower's ownership of real or personal property, the conduct and licensing of Borrower's business, and all environmental matters.

3.10 LITIGATION. Except as disclosed in the Schedule, there is no claim, suit, litigation, proceeding or investigation pending or (to best of Borrower's knowledge) threatened by or against or affecting Borrower in any court or before any governmental agency (or any basis therefor known to Borrower) which may result, either separately or in the aggregate, in any material adverse change in the financial condition or business of Borrower, or

in any material impairment in the ability of Borrower to carry on its business in substantially the same manner as it is now being conducted. Borrower will promptly inform Silicon in writing of any claim, proceeding,

litigation or investigation in the future threatened or instituted by or against Borrower involving any single claim of $50,000 or more, or involving $100,000 or more in the aggregate.

3.11 USE OF PROCEEDS. All proceeds of all Loans shall be used solely for lawful business purposes. Borrower is not purchasing or carrying any "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System) and no part of the proceeds of any Loan will be used to purchase or carry any "margin stock" or to extend credit to others for the purpose of purchasing or carrying any "margin stock."

4. RECEIVABLES.

4.1 REPRESENTATIONS RELATING TO RECEIVABLES. Borrower represents and warrants to Silicon as follows: Each Receivable with respect to which Loans are requested by Borrower shall, on the date each Loan is requested and made, (i) represent an undisputed bona fide existing unconditional obligation of the Account Debtor created by the sale, delivery, and acceptance of goods or the rendition of services in the ordinary course of Borrower's business, and (ii) meet the Minimum Eligibility Requirements set forth in Section 8 below.

4.2 REPRESENTATIONS RELATING TO DOCUMENTS AND LEGAL COMPLIANCE. Borrower represents and warrants to Silicon as follows: All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing the Receivables are and shall be true and correct and all such invoices, instruments and other documents and all of Borrower's books and records are and shall be genuine and in all respects what they purport to be, and all signatories and endorsers have the capacity to contract. All sales and other transactions underlying or giving rise to each Receivable shall fully comply with all applicable laws and governmental rules and regulations. All signatures and endorsements on all documents, instruments, and agreements relating to all Receivables are and shall be genuine, and all such documents, instruments and agreements are and shall be legally enforceable in accordance with their terms.

4.3 SCHEDULES AND DOCUMENTS RELATING TO RECEIVABLES. Borrower shall deliver to Silicon transaction reports and loan requests, schedules and assignments of all Receivables, and schedules of collections, all on Silicon's standard forms; provided, however, that Borrower's failure to execute and deliver the same shall not affect or limit Silicon's security interest and other rights in all of Borrower's Receivables, nor shall Silicon's failure to advance or lend against a specific Receivable affect or limit Silicon's security interest and other rights therein. Loan requests received after 12:00 Noon will not be considered by Silicon until the next Business Day. Together with each such schedule and assignment, or later if requested by Silicon, Borrower shall furnish Silicon with copies (or, at Silicon's request, originals) of all contracts, orders, invoices, and other similar documents, and all original shipping instructions, delivery receipts, bills of lading, and other evidence of delivery, for any goods the sale or disposition of which gave rise to such Receivables, and Borrower warrants the genuineness of all of the foregoing. Borrower shall also furnish to Silicon an aged accounts receivable trial balance in such form and at such intervals as Silicon shall request. In addition, Borrower shall deliver to Silicon the originals of all instruments, chattel paper, security agreements, guarantees and other documents and property evidencing or securing any Receivables, immediately upon receipt thereof and in the same form as received, with all necessary indorsements, all of which shall be with recourse. Borrower shall also provide Silicon with copies of all credit memos within two days after the date issued.

4.4 COLLECTION OF RECEIVABLES. Borrower shall have the right to collect all Receivables, unless and until a Default or an Event of Default has occurred. Borrower shall hold all payments on, and proceeds of, Receivables in trust for Silicon, and Borrower shall immediately deliver all such payments and proceeds to Silicon in their original form, duly endorsed in blank, to be applied to the Obligations in such order as Silicon shall determine. Silicon may, in its discretion, require that all proceeds of Collateral be deposited by Borrower into a lockbox account, or such other "blocked account" as Silicon may specify, pursuant to a blocked account agreement in such form as Silicon may specify. Silicon or its designee may, at any time, notify Account Debtors that the Receivables have been assigned to Silicon.

4.5. REMITTANCE OF PROCEEDS. All proceeds arising from the disposition of any Collateral shall be delivered, in kind, by Borrower to Silicon in the original form in which received by Borrower not later than the following Business Day after receipt by Borrower, to be applied to the Obligations in such order as Silicon shall determine; provided that, if no Default or Event of Default has occurred, Borrower shall not be obligated to remit to Silicon the proceeds of the sale of worn out or obsolete equipment

disposed of by Borrower in good faith in an arm's length transaction for an aggregate purchase price of

$25,000 or less (for all such transactions in any fiscal year). Borrower agrees that it will not commingle proceeds of Collateral with any of Borrower's other funds or property, but will hold such proceeds separate and apart from such other funds and property and in an express trust for Silicon. Nothing in this Section limits the restrictions on disposition of Collateral set forth elsewhere in this Agreement.

4.6 DISPUTES. Borrower shall notify Silicon promptly of all disputes or claims relating to Receivables. Borrower shall not forgive (completely or partially), compromise or settle any Receivable for less than payment in full, or agree to do any of the foregoing, except that Borrower may do so, provided that: (i) Borrower does so in good faith, in a commercially reasonable manner, in the ordinary course of business, and in arm's length transactions, which are reported to Silicon on the regular reports provided to Silicon; (ii) no Default or Event of Default has occurred and is continuing; and (iii) taking into account all such discounts settlements and forgiveness, the total outstanding Loans will not exceed the Credit Limit. Silicon may, at any time after the occurrence of an Event of Default, settle or adjust disputes or claims directly with Account Debtors for amounts and upon terms which Silicon considers advisable in its reasonable credit judgment and, in all cases, Silicon shall credit Borrower's Loan account with only the net amounts received by Silicon in payment of any Receivables.

4.7 RETURNS. Provided no Event of Default has occurred and is continuing, if any Account Debtor returns any Inventory to Borrower in the ordinary course of its business, Borrower shall promptly determine the reason for such return and promptly issue a credit memorandum to the Account Debtor in the appropriate amount (sending a copy to Silicon). In the event any attempted return occurs after the occurrence of any Event of Default, Borrower shall (i) hold the returned Inventory in trust for Silicon, (ii) segregate all returned Inventory from all of Borrower's other property, (iii) conspicuously label the returned Inventory as Silicon's property, and (iv) immediately notify Silicon of the return of any Inventory, specifying the reason for such return, the location and condition of the returned Inventory, and on Silicon's request deliver such returned Inventory to Silicon.

4.8 VERIFICATION. Silicon may, from time to time, verify directly with the respective Account Debtors the validity, amount and other matters relating to the Receivables, by means of mail, telephone or otherwise, either in the name of Borrower or Silicon or such other name as Silicon may choose.

4.9 NO LIABILITY. Silicon shall not under any circumstances be responsible or liable for any shortage or discrepancy in, damage to, or loss or destruction of, any goods, the sale or other disposition of which gives rise to a Receivable, or for any error, act, omission, or delay of any kind occurring in the settlement, failure to settle, collection or failure to collect any Receivable, or for settling any Receivable in good faith for less than the full amount thereof, nor shall Silicon be deemed to be responsible for any of Borrower's obligations under any contract or agreement giving rise to a Receivable. Nothing herein shall, however, relieve Silicon from liability for its own gross negligence or willful misconduct.

5. ADDITIONAL DUTIES OF BORROWER.

5.1 FINANCIAL AND OTHER COVENANTS. Borrower shall at all times comply with the financial and other covenants set forth in the Schedule.

5.2 INSURANCE. Borrower shall, at all times insure all of the tangible personal property Collateral and carry such other business insurance, with insurers reasonably acceptable to Silicon, in such form and amounts as Silicon may reasonably require, and Borrower shall provide evidence of such insurance to Silicon, so that Silicon is satisfied that such insurance is, at all times, in full force and effect. All such insurance policies shall name Silicon as an additional loss payee, and shall contain a lenders loss payee endorsement in form reasonably acceptable to Silicon. Upon receipt of the proceeds of any such insurance, Silicon shall apply such proceeds in reduction of the Obligations as Silicon shall determine in its sole discretion, except that, provided no Default or Event of Default has occurred and is continuing, Silicon shall release to Borrower insurance proceeds with respect to Equipment totaling less than $100,000, which shall be utilized by Borrower for the replacement of the Equipment with respect to which the insurance proceeds were paid. Silicon may require reasonable assurance that the insurance proceeds so released will be so used. If Borrower fails to provide or pay for any insurance, Silicon may, but is not obligated to, obtain the same at Borrower's expense. Borrower shall promptly deliver to Silicon copies of all reports made to insurance companies.

5.3 REPORTS. Borrower, at its expense, shall provide Silicon with the written reports set forth in

the Schedule, and such other written reports with respect to Borrower (including budgets, sales projections, operating plans and other financial documentation), as Silicon shall from time to time reasonably specify.

5.4 ACCESS TO COLLATERAL, BOOKS AND RECORDS. At reasonable times, and on one Business Day's notice, Silicon, or its agents, shall have the right to inspect the Collateral, and the right to audit and copy Borrower's books and records. Silicon shall take reasonable steps to keep confidential all information obtained in any such inspection or audit, but Silicon shall have the right to disclose any such information to its auditors, regulatory agencies, and attorneys, and pursuant to any subpoena or other legal process. The foregoing inspections and audits shall be at Borrower's expense and the charge therefor shall be $650 per person per day (or such higher amount as shall represent Silicon's then current standard charge for the same), plus reasonable out of pocket expenses. Borrower will not enter into any agreement with any accounting firm, service bureau or third party to store Borrower's books or records at any location other than Borrower's Address, without first obtaining Silicon's written consent, which may be conditioned upon such accounting firm, service bureau or other third party agreeing to give Silicon the same rights with respect to access to books and records and related rights as Silicon has under this Loan Agreement.

5.5 NEGATIVE COVENANTS. Except as may be permitted in the Schedule, Borrower shall not, without Silicon's prior written consent, do any of the following: (i) merge or consolidate with another corporation or entity; (ii) acquire any assets, except in the ordinary course of business; (iii) enter into any other transaction outside the ordinary course of business*; (iv) sell or transfer any Collateral, except for the sale of finished Inventory in the ordinary course of Borrower's business, and except for the sale of obsolete or unneeded Equipment in the ordinary course of business; (v) store any Inventory or other Collateral with any warehouseman or other third party; (vi) sell any Inventory on a sale-or-return, guaranteed sale, consignment, or other contingent basis; (vii) make any loans of any money or other assets; (viii) incur any debts, outside the ordinary course of business, which would have a material, adverse effect on Borrower or on the prospect of repayment of the Obligations; (ix) guarantee or otherwise become liable with respect to the obligations of another party or entity; (x) pay or declare any dividends on Borrower's stock (except for dividends payable solely in stock of Borrower); (xi) redeem, retire, purchase or otherwise acquire, directly or indirectly, any of Borrower's stock; (xii) make any change in Borrower's capital structure which would have a material adverse effect on Borrower or on the prospect of repayment of the Obligations; or (xiii) pay total compensation, including salaries, fees, bonuses, commissions, and all other payments, whether directly or indirectly, in money or otherwise, to Borrower's executives, officers and directors (or any relative thereof) in an amount in excess of the amount set forth on the Schedule; or (xiv) dissolve or elect to dissolve. Transactions permitted by the foregoing provisions of this Section are only permitted if no Default or Event of Default would occur as a result of such transaction.

*(EXCEPT FOR A PUBLIC OFFERING OF BORROWER'S EQUITY SECURITIES)

5.6 LITIGATION COOPERATION. Should any third-party suit or proceeding be instituted by or against Silicon with respect to any Collateral or in any manner relating to Borrower, Borrower shall, without expense to Silicon, make available Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Silicon may deem them reasonably necessary in order to prosecute or defend any such suit or proceeding.

5.7 FURTHER ASSURANCES. Borrower agrees, at its expense, on request by Silicon, to execute all documents and take all actions, as Silicon, may deem reasonably necessary or useful in order to perfect and maintain Silicon's perfected security interest in the Collateral, and in order to fully consummate the transactions contemplated by this Agreement.

6. TERM.

6.1 MATURITY DATE. This Agreement shall continue in effect until the maturity date set forth on the Schedule (the "Maturity Date"), subject to Section 6.3 below.

6.2 EARLY TERMINATION. This Agreement may be terminated prior to the Maturity Date as follows: (i) by Borrower, effective three Business Days after written notice of termination is given to Silicon; or (ii) by Silicon at any time after the occurrence of an Event of Default, without notice, effective immediately. If this Agreement is terminated by Borrower or by Silicon under this Section 6.2, Borrower shall pay to Silicon a termination fee in an amount equal to* provided that no termination fee shall be charged if the credit facility hereunder is

replaced with a new facility from another division of Silicon Valley Bank. The termination fee shall be due and payable on the effective date of termination and thereafter shall bear interest at a rate equal to the highest rate applicable to any of the Obligations.

*$5,000 PER MONTH FOR THE NUMBER OF MONTHS REMAINING (INCLUDING ANY PARTIAL MONTHS) UNTIL THE MATURITY DATE,

6.3 PAYMENT OF OBLIGATIONS. On the Maturity Date or on any earlier effective date of termination, Borrower shall pay and perform in full all Obligations, whether evidenced by installment notes or otherwise, and whether or not all or any part of such Obligations are otherwise then due and payable. Without limiting the generality of the foregoing, if on the Maturity Date, or on any earlier effective date of termination, there are any outstanding Letters of Credit issued by Silicon or issued by another institution based upon an application, guarantee, indemnity or similar agreement on the part of Silicon, then on such date Borrower shall provide to Silicon cash collateral in an amount equal to the face amount of all such Letters of Credit plus all interest, fees and cost due or to become due in connection therewith, to secure all of the Obligations relating to said Letters of Credit, pursuant to Silicon's then standard form cash pledge agreement. Notwithstanding any termination of this Agreement, all of Silicon's security interests in all of the Collateral and all of the terms and provisions of this Agreement shall continue in full force and effect until all Obligations have been paid and performed in full; provided that, without limiting the fact that Loans are subject to the discretion of Silicon, Silicon may, its sole discretion refuse to make any further Loans after termination. No termination shall in any way affect or impair any right or remedy of Silicon, nor shall any such termination relieve Borrower of any Obligation to Silicon, until all of the Obligations have been paid and performed in full. Upon payment and performance in full of all the Obligations and termination of this Agreement, Silicon shall promptly deliver to Borrower termination statements, requests for re-conveyances and such other documents as may be required to fully terminate Silicon's security interests.

7. EVENTS OF DEFAULT AND REMEDIES.

7.1 EVENTS OF DEFAULT. The occurrence of any of the following events shall constitute an "Event of Default" under this Agreement, and Borrower shall give Silicon immediate written notice thereof: (a) Any warranty, representation, statement, report or certificate made or delivered to Silicon by Borrower or any of Borrower's officers, employees or agents, now or in the future, shall be untrue or misleading in a material respect*; or (b) Borrower shall fail to pay when due any Loan or any interest thereon or any other monetary Obligation; or (c) the total Loans and other Obligations outstanding at any time shall exceed the Credit Limit; or (d) Borrower shall fail to comply with any of the financial covenants set forth in the Schedule or shall fail to perform any other non-monetary Obligation which by its nature cannot be cured; or (e) Borrower shall fail to perform any other non-monetary Obligation, which failure is not cured within** Business Days after the date due; or (f) any levy, assessment, attachment, seizure, lien or encumbrance (other than a Permitted Lien) is made on all or any part of the Collateral which is not cured within 10 days after the occurrence of the same; or (g) any default or event of default occurs under any obligation secured by a Permitted Lien, which is not cured within any applicable cure period or waived in writing by the holder of the Permitted Lien; or (h) Borrower breaches any material contract or obligation, which ***has or may reasonably be expected to have a material adverse effect on Borrower's business or financial condition; or (i) Dissolution, termination of existence, insolvency or business failure of Borrower; or appointment of a receiver, trustee or custodian, for all or any part of the property of, assignment for the benefit of creditors by, or the commencement of any proceeding by Borrower under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect; or (j) the commencement of any proceeding against Borrower or any guarantor of any of the Obligations under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect, which is not cured by the dismissal thereof within 30 days after the date commenced; or (k) revocation or termination of, or limitation or denial of liability upon, any guaranty of the Obligations or any attempt to do any of the foregoing, or commencement of proceedings by any guarantor of any of the Obligations under any bankruptcy or insolvency law; or (l) revocation or termination of, or limitation or denial of liability upon, any pledge of any certificate of deposit, securities or other property or asset of any kind pledged by any third party to secure any or all of the Obligations, or any attempt to do any of the foregoing, or commencement of proceedings by or against any such third party under any bankruptcy or insolvency law; or (m) Borrower makes any payment

on account of any indebtedness or obligation which has been subordinated to the Obligations other than as permitted in the applicable subordination agreement,

or if any Person who has subordinated such indebtedness or obligations terminates or in any way limits his subordination agreement; or (n) there shall be a change in the record or beneficial ownership of an aggregate of more than 20% of the outstanding shares of stock of Borrower, in one or more transactions****, compared to the ownership of outstanding shares of stock of Borrower in effect on the date hereof, without the prior written consent of Silicon; or (o) Borrower shall generally not pay its debts as they become due, or Borrower shall conceal, remove or transfer any part of its property, with intent to hinder, delay or defraud its creditors, or make or suffer any transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or (p) there shall be a material adverse change in Borrower's business or financial condition; or (q) Silicon, acting in good faith and in a commercially reasonable manner, deems itself insecure because of the occurrence of an event prior to the effective date hereof of which Silicon had no knowledge on the effective date or because of the occurrence of an event on or subsequent to the effective date. Silicon may cease making any Loans hereunder during any of the above cure periods, and thereafter if an Event of Default has occurred.

*WHEN MADE

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***BREACH

****(OTHER THAN IN CONNECTION WITH THE IPO, AS DEFINED ABOVE)

7.2 REMEDIES. Upon the occurrence of any Event of Default, and at any time thereafter, Silicon, at its option, and without notice or demand of any kind (all of which are hereby expressly waived by Borrower), may do any one or more of the following: (a) Cease making Loans or otherwise extending credit to Borrower under this Agreement or any other document or agreement; (b) Accelerate and declare all or any part of the Obligations to be immediately due, payable, and performable, notwithstanding any deferred or installment payments allowed by any instrument evidencing or relating to any Obligation; (c) Take possession of any or all of the Collateral wherever it may be found, and for that purpose Borrower hereby authorizes Silicon without judicial process to enter onto any of Borrower's premises without interference to search for, take possession of, keep, store, or remove any of the Collateral, and remain on the premises or cause a custodian to remain on the premises in exclusive control thereof, without charge for so long as Silicon deems it reasonably necessary in order to complete the enforcement of its rights under this Agreement or any other agreement; provided, however, that should Silicon seek to take possession of any of the Collateral by Court process, Borrower hereby irrevocably waives: (i) any bond and any surety or security relating thereto required by any statute, court rule or otherwise as an incident to such possession; (ii) any demand for possession prior to the commencement of any suit or action to recover possession thereof; and (iii) any requirement that Silicon retain possession of, and not dispose of, any such Collateral until after trial or final judgment; (d) Require Borrower to assemble any or all of the Collateral and make it available to Silicon at places designated by Silicon which are reasonably convenient to Silicon and Borrower, and to remove the Collateral to such locations as Silicon may deem advisable; (e) Complete the processing, manufacturing or repair of any Collateral prior to a disposition thereof and, for such purpose and for the purpose of removal, Silicon shall have the right to use Borrower's premises, vehicles, hoists, lifts, cranes, equipment and all other property without charge; (f) Sell, lease or otherwise dispose of any of the Collateral, in its condition at the time Silicon obtains possession of it or after further manufacturing, processing or repair, at one or more public and/or private sales, in lots or in bulk, for cash, exchange or other property, or on credit, and to adjourn any such sale from time to time without notice other than oral announcement at the time scheduled for sale. Silicon shall have the right to conduct such disposition on Borrower's premises without charge, for such time or times as Silicon deems reasonable, or on Silicon's premises, or elsewhere and the Collateral need not be located at the place of disposition. Silicon may directly or through any affiliated company purchase or lease any Collateral at any such public disposition, and if permissible under applicable law, at any private disposition. Any sale or other disposition of Collateral shall not relieve Borrower of any liability Borrower may have if any Collateral is defective as to title or physical condition or otherwise at the time of sale; (g) Demand payment of, and collect any Receivables and General Intangibles comprising Collateral and, in connection therewith, Borrower irrevocably authorizes Silicon to endorse or sign Borrower's name on all collections, receipts, instruments and other documents, to take possession

of and open mail addressed to Borrower and remove therefrom payments made with respect to any item of the Collateral or proceeds thereof, and, in Silicon's sole discretion, to grant extensions of time to pay, compromise claims and settle Receivables and the like for less than face value; (h) Offset against any sums in any of Borrower's general, special or other Deposit Accounts with Silicon; and (i) Demand and receive possession of any of Borrower's federal and state income tax returns and the books and records utilized in the preparation

thereof or referring thereto. All reasonable attorneys' fees, expenses, costs, liabilities and obligations incurred by Silicon with respect to the foregoing shall be added to and become part of the Obligations, shall be due on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations. Without limiting any of Silicon's rights and remedies, from and after the occurrence of any Event of Default, the interest rate applicable to the Obligations shall be increased by an additional four percent per annum.

7.3 STANDARDS FOR DETERMINING COMMERCIAL REASONABLENESS. Borrower and Silicon agree that a sale or other disposition (collectively, "sale") of any Collateral which complies with the following standards will conclusively be deemed to be commercially reasonable: (i) Notice of the sale is given to Borrower at least* days prior to the sale, and, in the case of a public sale, notice of the sale is, published at least* days before the sale in a newspaper of general circulation in the county where the sale is to be conducted; (ii) Notice of the sale describes the collateral in general, non-specific terms; (iii) The sale is conducted at a place designated by Silicon, with or without the Collateral being present; (iv) The sale commences at any time between 8:00 a.m. and 6:00 p.m.; (v) Payment of the purchase price in cash or by cashier's check or wire transfer is required; (vi) With respect to any sale of any of the Collateral, Silicon may (but is not obligated to) direct any prospective purchaser to ascertain directly from Borrower any and all information concerning the same. Silicon shall be free to employ other methods of noticing and selling the Collateral, in its discretion, if they are commercially reasonable.

*TEN (10)

7.4 POWER OF ATTORNEY. Upon the occurrence of any Event of Default, without limiting Silicon's other rights and remedies, Borrower grants to Silicon an irrevocable power of attorney coupled with an interest, authorizing and permitting Silicon (acting through any of its employees, attorneys or agents) at any time, at its option, but without obligation, with or without notice to Borrower, and at Borrower's expense, to do any or all of the following, in Borrower's name or otherwise, but Silicon agrees to exercise the following powers in a commercially reasonable manner: (a) Execute on behalf of Borrower any documents that Silicon may, in its sole discretion, deem advisable in order to perfect and maintain Silicon's security interest in the Collateral, or in order to exercise a right of Borrower or Silicon, or in order to fully consummate all the transactions contemplated under this Agreement, and all other present and future agreements; (b) Execute on behalf of Borrower any document exercising, transferring or assigning any option to purchase, sell or otherwise dispose of or to lease (as lessor or lessee) any real or personal property which is part of Silicon's Collateral or in which Silicon has an interest; (c) Execute on behalf of Borrower, any invoices relating to any Receivable, any draft against any Account Debtor and any notice to any Account Debtor, any proof of claim in bankruptcy, any Notice of Lien, claim of mechanic's, materialman's or other lien, or assignment or satisfaction of mechanic's, materialman's or other lien; (d) Take control in any manner of any cash or non-cash items of payment or proceeds of Collateral; endorse the name of Borrower upon any instruments, or documents, evidence of payment or Collateral that may come into Silicon's possession; (e) Endorse all checks and other forms of remittances received by Silicon; (f) Pay, contest or settle any lien, charge, encumbrance, security interest and adverse claim in or to any of the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; (g) Grant extensions of time to pay, compromise claims and settle Receivables and General Intangibles for less than face value and execute all releases and other documents in connection therewith; (h) Pay any sums required on account of Borrower's taxes or to secure the release of any liens therefor, or both; (i) Settle and adjust, and give releases of, any insurance claim that relates to any of the Collateral and obtain payment therefor; (j) Instruct any third party having custody or control of any books or records belonging to, or relating to, Borrower to give Silicon the same rights of access and other rights with respect thereto as Silicon has under this Agreement; and (k) Take any action or pay any sum required of Borrower pursuant to this Agreement and any other present or future agreements. Any and all reasonable sums paid and any and all reasonable costs, expenses, liabilities, obligations and attorneys' fees incurred by Silicon with respect to the foregoing shall be added to and become part of the Obligations, shall be payable on demand, and shall bear interest at a rate equal to the

highest interest rate applicable to any of the Obligations. In no event shall Silicon's rights under the foregoing power of attorney or any of Silicon's other rights under this Agreement be deemed to indicate that Silicon is in control of the business, management or properties of Borrower.

7.5 APPLICATION OF PROCEEDS. All proceeds realized, as the result of any sale of the Collateral shall be applied by Silicon first to the reasonable costs, expenses, liabilities, obligations and attorneys' fees incurred by Silicon in the exercise of its rights under this Agreement, second to the interest due upon any of the Obligations, and third to the principal of the Obligations, in such order as Silicon shall determine in its sole

discretion. Any surplus shall be paid to Borrower or other persons legally entitled thereto; Borrower shall remain liable to Silicon for any deficiency. If, Silicon, in its sole discretion, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Silicon shall have the option, exercisable at any time, in its sole discretion, of either reducing the Obligations by the principal amount of purchase price or deferring the reduction of the Obligations until the actual receipt by Silicon of the cash therefor.

7.6 REMEDIES CUMULATIVE. In addition to the rights and remedies set forth in this Agreement, Silicon shall have all the other rights and remedies accorded a secured party under the California Uniform Commercial Code and under all other applicable laws, and under any other instrument or agreement now or in the future entered into between Silicon and Borrower, and all of such rights and remedies are cumulative and none is exclusive. Exercise or partial exercise by Silicon of one or more of its rights or remedies shall not be deemed an election, nor bar Silicon from subsequent exercise or partial exercise of any other rights or remedies. The failure or delay of Silicon to exercise any rights or remedies shall not operate as a waiver thereof, but all rights and remedies shall continue in full force and effect until all of the Obligations have been fully paid and performed.

8. DEFINITIONS. As used in this Agreement, the following terms have the following meanings:

"ACCOUNT DEBTOR" means the obligor on a Receivable.

"AFFILIATE" means, with respect to any Person, a relative, partner, shareholder, director, officer, or employee of such Person, or any parent or subsidiary of such Person, or any Person controlling, controlled by or under common control with such Person.

"BUSINESS DAY" means a day on which Silicon is open for business.

"CODE" means the Uniform Commercial Code as adopted and in effect in the State of California from time to time.

"COLLATERAL" has the meaning set forth in Section 2.1 above.

"DEFAULT" means any event which with notice or passage of time or both, would constitute an Event of Default.

"DEPOSIT ACCOUNT" has the meaning set forth in Section 9105 of the Code.

"ELIGIBLE INVENTORY" means Inventory which Silicon, in its* deems eligible for borrowing, based on such considerations as Silicon may from time to time deem appropriate. Without limiting the fact that the determination of which Inventory is eligible for borrowing is a matter of Silicon's discretion, Inventory which does not meet the following requirements will not be deemed to be Eligible Inventory: Inventory which (i) consists of** finished goods, in good, new and salable condition which is not perishable, not obsolete or unmerchantable, and is not comprised of work in process, packaging materials or supplies; (ii) meets all applicable governmental standards; (iii) has been manufactured in compliance with the Fair Labor Standards Act; (iv) conforms in all respects to the warranties and representations set forth in this Agreement; (v) is at all times subject to Silicon's duly perfected, first priority security interest; and (vi) is situated at a one of the locations set forth on the Schedule.

*GOOD-FAITH BUSINESS JUDGMENT,

**RAW MATERIALS AND

"ELIGIBLE RECEIVABLES" means Receivables arising in the ordinary course of Borrower's business from the sale of goods or rendition of services, which Silicon, in its* shall deem eligible for borrowing, based on such considerations as Silicon may from time to time deem appropriate. Without limiting the fact that the determination of which Receivables are eligible for borrowing is a matter of Silicon's discretion, the following (the "MINIMUM ELIGIBILITY REQUIREMENTS") are the minimum requirements for a

Receivable to be an Eligible Receivable: (i) the Receivable must not be outstanding for more than 90 days from its invoice date, (ii) the Receivable must not represent progress billings, or be due under a fulfillment or requirements contract with the Account Debtor, (iii) the Receivable must not be subject to any contingencies (including Receivables arising from sales on consignment, guaranteed sale or other terms pursuant to which payment by the Account Debtor may be conditional), (iv) the Receivable must not be owing from an Account Debtor with whom Borrower has any dispute (whether or not relating to the particular Receivable), (v) the Receivable must not be owing from an Affiliate of Borrower, (vi) the Receivable must not be owing from an Account

Debtor which is subject to any insolvency or bankruptcy proceeding, or whose financial condition is not acceptable to Silicon, or which, fails or goes out of a material portion of its business, (vii) the Receivable must not be owing from the United States or any department, agency or instrumentality thereof (unless there has been compliance, to Silicon's satisfaction, with the United States Assignment of Claims Act), (viii) the Receivable must not be owing from an Account Debtor located outside the United States or Canada (unless pre-approved by Silicon in its discretion in writing, or backed by a letter of credit satisfactory to Silicon, or FCIA insured satisfactory to Silicon), (ix) the Receivable must not be owing from an Account Debtor to whom Borrower is or may be liable for goods purchased from such Account Debtor or otherwise. Receivables owing from one Account Debtor will not be deemed Eligible Receivables to the extent they exceed 25% of the total Receivables outstanding. In addition, if more than 50% of the Receivables owing from an Account Debtor are outstanding more than 90 days from their invoice date (without regard to unapplied credits) or are otherwise not eligible Receivables, then all Receivables owing from that Account Debtor will be deemed ineligible for borrowing. Silicon may, from time to time, in its discretion, revise the Minimum Eligibility Requirements, upon written notice to Borrower.

*GOOD-FAITH BUSINESS JUDGMENT,

"EQUIPMENT" means all of Borrower's present and here-after acquired machinery, molds, machine tools, motors, furniture, equipment, furnishings, fixtures, trade fixtures, motor vehicles, tools, parts, dyes, jigs, goods and other tangible personal property (other than Inventory) of every kind and description used in Borrower's operations or owned by Borrower and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions or improvements to any of the foregoing, wherever located.

"EVENT OF DEFAULT" means any of the events set forth in Section 7.1 of this Agreement.

"GENERAL INTANGIBLES" means all general intangibles of Borrower, whether now owned or hereafter created or acquired by Borrower, including, without limitation, all choses in action, causes of action, corporate or other business records, Deposit Accounts,* security and other deposits, rights in all litigation presently or hereafter pending for any cause or claim (whether in contract, tort or otherwise), and all judgments now or hereafter arising therefrom, all claims of Borrower against Silicon, rights to purchase or sell real or personal property, rights as a licensor or licensee of any kind, royalties, telephone numbers, proprietary information, purchase orders, and all insurance policies and claims (including without limitation life insurance, key man insurance, credit insurance, liability insurance, property insurance and other insurance), tax refunds and claims, computer programs, discs, tapes and tape files, claims under guaranties, security interests or other security held by or granted to Borrower, all rights to indemnification and all other intangible property of every kind and nature (other than Receivables).**

*INTELLECTUAL PROPERTY,

**"INTELLECTUAL PROPERTY" MEANS ALL INVENTIONS, DESIGNS, DRAWINGS, BLUEPRINTS, PATENTS, PATENT APPLICATIONS, TRADEMARKS AND THE GOODWILL OF THE BUSINESS SYMBOLIZED THEREBY, NAMES, TRADE NAMES, TRADE SECRETS, GOODWILL, COPYRIGHTS, REGISTRATIONS, LICENSES, FRANCHISES, CUSTOMER LISTS, RIGHTS IN ALL LITIGATION RELATING THERETO AND THE PROCEEDS OF THE FOREGOING.

"INVENTORY" means all of Borrower's now owned and hereafter acquired goods, merchandise or other personal property, wherever located, to be furnished under any contract of service or held for sale or lease (including without limitation all raw materials, work in process, finished goods and goods in transit), and all materials and supplies of every kind, nature and description which are or might be used or consumed in Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise or other personal property, and all warehouse receipts, documents of title and other documents representing any of the foregoing.

"OBLIGATIONS" means all present and future Loans, advances, debts, liabilities, obligations, guaranties, covenants, duties and indebtedness at any time owing by Borrower to Silicon, whether evidenced by this Agreement or any note or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, banker's acceptance, loan, guaranty, indemnification or otherwise, whether direct or indirect (including, without limitation, those acquired by assignment and any participation by Silicon in Borrower's debts owing to others), absolute or contingent, due or to become due, including, without limitation, all interest, charges, expenses, fees, attorney's fees, expert witness fees, audit fees, letter of credit fees, collateral monitoring fees, closing fees, facility fees, termination fees, minimum interest charges and any other sums chargeable to Borrower under this Agreement or under any other present or future instrument or agreement between Borrower and

Silicon.

"PERMITTED LIENS" means the following: (i) purchase money security interests in specific items of Equipment; (ii) leases of specific items of Equipment; (iii) liens for taxes not yet payable; (iv) additional security interests and liens consented to in writing by Silicon, which consent shall not be unreasonably withheld; (v) security interests being terminated substantially concurrently with this Agreement; (vi) liens of materialmen, mechanics, warehousemen, carriers, or other similar liens arising in the ordinary course of business and securing obligations which are not delinquent; (vii) liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by liens of the type described above in clauses (i) or (ii) above, provided that any extension, renewal or replacement lien is limited to the property encumbered by the existing lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase; (viii) Liens in favor of customs and revenue authorities which secure payment of customs duties in connection with the importation of goods. Silicon will have the right to require, as a condition to its consent under subparagraph (iv) above, that the holder of the additional security interest or lien sign an intercreditor agreement on Silicon's then standard form, acknowledge that the security interest is subordinate to the security interest in favor of Silicon, and agree not to take any action to enforce its subordinate security interest so long as any Obligations remain outstanding, and that Borrower agree that any uncured default in any obligation secured by the subordinate security interest shall also constitute an Event of Default under this Agreement.

"PERSON" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, government, or any agency or political division thereof, or any other entity.

"RECEIVABLES" means all of Borrower's now owned and hereafter acquired accounts (whether or not earned by performance), letters of credit, contract rights, chattel paper, instruments, securities, securities accounts, investment property, documents and all other forms of obligations at any time owing to Borrower, all guaranties and other security therefor, all merchandise returned to or repossessed by Borrower, and all rights of stoppage in transit and all other rights or remedies of an unpaid vendor, lienor or secured party.

"RESERVES" means, as of any date of determination, such amounts as Silicon may from time to time establish and revise in good faith reducing the amount of Loans, Letters of Credit and other financial accommodations which would otherwise be available to Borrower under the lending formula(s) provided in the Schedule: (a) to reflect events, conditions, contingencies or risks which, as determined by Silicon in good faith, do or may affect (i) the Collateral or any other property which is security for the Obligations or its value (including without limitation any increase in delinquencies of Receivables), (ii) the assets, business or prospects of Borrower or any Guarantor, or (iii) the security interests and other rights of Silicon in the Collateral (including the enforceability, perfection and priority thereof); or (b) to reflect Silicon's good faith belief that any collateral report or financial information furnished by or on behalf of Borrower or any Guarantor to Silicon is or may have been incomplete, inaccurate or misleading in any material respect; or (c) in respect of any state of facts which Silicon determines in good faith constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default.

OTHER TERMS. All accounting terms used in this Agreement, unless otherwise indicated, shall have the meanings given to such terms in accordance with generally accepted accounting principles, consistently applied. All other terms contained in this Agreement, unless otherwise indicated, shall have the meanings provided by the Code, to the extent such terms are defined therein.

9. GENERAL PROPOSITIONS.

9.1 INTEREST COMPUTATION. In computing interest on the Obligations, all checks, and other items of payment received by Silicon (including proceeds of Receivables and payment of the Obligations in full) shall be deemed applied by Silicon on account of the Obligations three Business Days after receipt by Silicon of immediately available funds*, and, for purposes of the foregoing, any such funds received after 12:00 Noon on any day shall be deemed received on the next Business Day. Silicon shall not, however, be required to credit Borrower's account for the amount of any item of payment which is unsatisfactory to Silicon in its sole discretion, and Silicon may charge Borrower's loan account for the amount of any item of payment which is returned to Silicon unpaid.

*(EXCEPT WITH RESPECT TO WIRE TRANSFERS WHICH SHALL BE DEEMED APPLIED BY SILICON ON ACCOUNT OF THE OBLIGATIONS THE SAME BUSINESS DAY AS DEEMED RECEIVED BY SILICON)

9.2 APPLICATION OF PAYMENTS. All payments with respect to the Obligations may be applied, and in Silicon's sole discretion, reversed and

re-applied, to the Obligations, in such order and manner as Silicon shall determine in its sole discretion.

9.3 CHARGES TO ACCOUNTS. Silicon may, in its discretion, require that Borrower pay monetary Obligations in cash to Silicon, or charge them to Borrower's Loan account, in which event they will bear interest at the same rate applicable to the Loans. Silicon may also, in its discretion, charge any monetary Obligations to Borrower's Deposit Accounts maintained with Silicon.

9.4 MONTHLY ACCOUNTINGS. Silicon shall provide Borrower monthly with an account of advances, charges, expenses and payments made pursuant to this Agreement. Such account shall be deemed correct, accurate and binding on Borrower and an account stated (except for reverses and reapplications of payments made and corrections of errors discovered by Silicon), unless Borrower notifies Silicon in writing to the contrary within thirty days after each account is rendered, describing the nature of any alleged errors or admissions.

9.5 NOTICES. All notices to be given under this Agreement shall be in writing and shall be given either personally or by reputable private delivery service or by regular first-class mail, or certified mail return receipt requested, addressed to Silicon or Borrower at the addresses shown in the heading to this Agreement, or at any other address designated in writing by one party to the other party. Notices to Silicon shall be directed to the Commercial Finance Division, to the attention of the Division Manager or the Division Credit Manager. All notices shall be deemed to have been given upon delivery in the case of notices personally delivered, or at the expiration of one Business Day following delivery to the private delivery service, or two Business Days following the deposit thereof in the United States mail, with postage prepaid.

9.6 SEVERABILITY. Should any provision of this Agreement be held by any court of competent jurisdiction to be void or unenforceable, such defect shall not affect the remainder of this Agreement, which shall continue in full force and effect.

9.7 INTEGRATION. This Agreement and such other written agreements, documents and instruments as may be executed in connection herewith are the final, entire and complete agreement between Borrower and Silicon and supersede all prior and contemporaneous negotiations and oral representations and agreements, all of which are merged and integrated in this Agreement. THERE ARE NO ORAL UNDERSTANDINGS, REPRESENTATIONS OR AGREEMENTS BETWEEN THE PARTIES WHICH ARE NOT SET FORTH IN THIS AGREEMENT OR IN OTHER WRITTEN AGREEMENTS SIGNED BY THE PARTIES IN CONNECTION HEREWITH.

9.8 WAIVERS. The failure of Silicon at any time or times to require Borrower to strictly comply with any of the provisions of this Agreement or any other present or future agreement between Borrower and Silicon shall not waive or diminish any right of Silicon later to demand and receive strict compliance therewith. Any waiver of any default shall not waive or affect any other default, whether prior or subsequent, and whether or not similar. None of the provisions of this Agreement or any other agreement now or in the future executed by Borrower and delivered to Silicon shall be deemed to have been waived by any act or knowledge of Silicon or its agents or employees, but only by a specific written waiver signed by an authorized officer of Silicon and delivered to Borrower. Borrower waives demand, protest, notice of protest and notice of default or dishonor, notice of payment and nonpayment, release, compromise, settlement, extension or renewal of any commercial paper, instrument, account, General Intangible, document or guaranty at any time held by Silicon on which Borrower is or may in any way be liable, and notice of any action taken by Silicon, unless expressly required by this Agreement.

9.9 NO LIABILITY FOR ORDINARY NEGLIGENCE. Neither Silicon, nor any of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing Silicon shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by Borrower or any other party through the ordinary negligence of Silicon, or any, of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing Silicon, but nothing herein shall relieve Silicon from liability for its own gross negligence or willful misconduct.

9.10 AMENDMENT. The terms and provisions of this Agreement may not be waived or amended, except in a writing executed by Borrower and a duly authorized officer of Silicon.

9.11 TIME OF ESSENCE. Time is of the essence in the performance by Borrower of each and every obligation under this Agreement.

9.12 ATTORNEYS FEES AND COSTS. Borrower shall reimburse Silicon for all reasonable attorneys' fees and all filing, recording, search, title insurance, appraisal, audit, and other reasonable costs incurred by Silicon, pursuant to, or in connection with, or relating to this Agreement (whether or not a lawsuit is filed), including, but not limited to, any reasonable attorneys' fees and costs Silicon incurs in order to do the following: prepare

and negotiate this Agreement and the documents relating to this Agreement; obtain legal advice in connection with this Agreement or Borrower; enforce, or seek to enforce, any of its rights; prosecute actions against, or defend actions by, Account Debtors; commence, intervene in, or defend any action or proceeding; initiate any complaint to be relieved of the automatic stay in bankruptcy; file or prosecute any probate claim, bankruptcy claim, third-party claim, or other claim; examine, audit, copy, and inspect any of the Collateral or any of Borrower's books and records; protect, obtain possession of, lease, dispose of, or otherwise enforce Silicon's security interest in, the Collateral; and otherwise represent Silicon in any litigation relating to Borrower. IN SATISFYING BORROWER'S OBLIGATION HEREUNDER TO REIMBURSE SILICON FOR ATTORNEYS FEES, BORROWER MAY, FOR CONVENIENCE, ISSUE CHECKS DIRECTLY TO SILICON'S ATTORNEYS, LEVY, SMALL & LALLAS, BUT BORROWER ACKNOWLEDGES AND AGREES THAT LEVY, SMALL & LALLAS IS REPRESENTING ONLY SILICON AND NOT BORROWER IN CONNECTION WITH THIS AGREEMENT. If either Silicon or Borrower files any lawsuit against the other predicated on a breach of this Agreement, the prevailing party in such action shall be entitled to recover its reasonable costs and attorneys' fees, including (but not limited to) reasonable attorneys' fees and costs incurred in the enforcement of, execution upon or defense of any order, decree, award or judgment. All attorneys' fees and costs to which Silicon may be entitled pursuant to this Paragraph shall immediately become part of Borrower's Obligations, shall be due on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations.

9.13 BENEFIT OF AGREEMENT. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective successors, assigns, heirs, beneficiaries and representatives of Borrower and Silicon; provided, however, that Borrower may not assign or transfer any of its rights under this Agreement without the prior written consent of Silicon, and any prohibited assignment shall be void. No consent by Silicon to any assignment shall release Borrower from its liability for the Obligations.

9.14 JOINT AND SEVERAL LIABILITY. If Borrower consists of more than one Person, their liability shall be joint and several, and the compromise of any claim with, or the re-lease of, any Borrower shall not constitute a compromise with, or a release of, any other Borrower.

9.15 LIMITATION OF ACTIONS. Any claim or cause of action by Borrower against Silicon, its directors, officers, employees, agents, accountants or attorneys, based upon, arising from, or relating to this Loan Agreement, or any other present or future document or agreement, or any other transaction contemplated hereby or thereby or relating hereto or thereto, or any other matter, cause or thing whatsoever, occurred, done, omitted or suffered to be done by Silicon, its directors, officers, employees, agents, accountants or attorneys, shall be barred unless asserted by Borrower by the commencement of an action or proceeding in a court of competent jurisdiction by the filing of a complaint within* after the first act, occurrence or omission upon which such claim or cause of action, or any part thereof, is based, and the service of a summons and complaint on an officer of Silicon, or on any other person authorized to accept service on behalf of Silicon, within thirty (30) days thereafter. Borrower agrees that such** period is a reasonable and sufficient time for Borrower to investigate and act upon any such claim or cause of action. The** period provided herein shall not be waived, tolled, or extended except by the written consent of Silicon in its sole discretion. This provision shall survive any termination of this Loan Agreement or any other present or future agreement.

*EIGHTEEN MONTHS

**EIGHTEEN MONTH

9.16 PARAGRAPH HEADINGS; CONSTRUCTION. Paragraph headings are only used in this Agreement for convenience. Borrower and Silicon acknowledge that the headings may not describe completely the subject matter of the applicable paragraph, and the headings shall not be used in any way to construe, limit, define or interpret any term or provision of this Agreement. The term "including, whenever used in this Agreement shall mean "including but not limited to)". This Agreement has been fully reviewed and negotiated between the parties and no uncertainty or ambiguity in any term or provision of this Agreement shall be construed strictly against Silicon or Borrower under any rule of construction or otherwise.

9.17 GOVERNING LAW; JURISDICTION; VENUE. This Agreement and all acts and transactions hereunder and all rights and obligations of Silicon and Borrower shall be governed by the laws of the State of California. As a material part of the consideration, to Silicon to enter into this Agreement, Borrower (i) agrees that all actions and proceedings relating directly or indirectly to this Agreement shall, at Silicon's option, be litigated in courts located within California, and that the exclusive venue therefor shall be Santa Clara County; (ii) consents to the jurisdiction and venue of any such court and consents to service of process in any such action or proceeding by personal delivery or any other method permitted by law, and (iii) waives any and all rights Borrower may

have to object to the jurisdiction of any such court, or to transfer or change the venue of any such action or proceeding.

9.18 MUTUAL WAIVER OF JURY TRIAL. BORROWER AND SILICON EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO, THIS AGREEMENT OR ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN SILICON AND BORROWER, OR ANY CONDUCT, ACTS OR OMISSIONS OF SILICON OR BORROWER OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH SILICON OR BORROWER, IN ALL OF THE FOREGOING CASES, WHETHER

SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

Borrower:

DIGIRAD CORPORATION

By /S/ SCOTT HUENNEKENS

President or Vice President

By /S/ GARY ATKINSON

Secretary or Ass't Secretary

Silicon:

SILICON VALLEY BANK

By /S/ ILLEGIBLE

Title SENIOR VICE PRESIDENT

SILICON VALLEY BANK

SCHEDULE TO

LOAN AND SECURITY AGREEMENT

BORROWER: DIGIRAD CORPORATION
ADDRESS: 9350 TRADE PLACE
SAN DIEGO, CA 92126

DATED: JULY 31, 2001

This Schedule forms an integral part of the Loan and Security Agreement between Silicon Valley Bank and the above-borrower of even date.

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1. CREDIT LIMIT
(Section 1.1):

An amount not to exceed the lesser of a total of $4,300,000 at any one time outstanding (the "Maximum Credit Limit"), or the sum of (a) and (b) below:

(a) 75% (the "Percentage Advance Rate") of the amount of Borrower's Eligible Receivables (as defined in Section 8 above), plus

(b) an amount not to exceed the lesser of:

(1) 25% of the value of Borrower's Eligible Inventory (as defined in Section 8 above), calculated at the lower of cost or market value and determined on a first-in, first-out basis, or

(2) 50% of the amount of Borrower's Eligible Receivables (as defined in Section 8 above), or

(3) $300,000.

The foregoing Percentage Advance Rate is typically based on the quality of the Receivables and attendant Dilution as follows: up to 85% Percentage Advance Rate with 5% Dilution; up to 80% Percentage Advance Rate with Dilution over 5 % but less than 10%; up to 75% Percentage

Advance Rate when Dilution is over 10% but less than 15%. If Dilution exceeds 15%, a reserve is established for the dilution factor rounded up to the nearest whole number then multiplied by a factor of up to 75%.

As used above, "Dilution" means all deductions from Receivables by Account Debtors of Borrower, other than those arising from payment thereof, and includes without limitation deductions arising from advertising and other allowances, credit memos, returns, bad debts, and all other deductions, as determined by Silicon's audit and for such period as Silicon shall determine. Changes in the Percentage Advance Rate based on Dilution shall go into effect when Silicon has determined the amount of the Dilution and given written notice to the Borrower of the change in the Percentage Advance Rate. If, as a result of a decrease in the Percentage Advance Rate, the total Loans and other Obligations exceed the Credit Limit, the Borrower shall pay the excess to Silicon in accordance with the terms of this Agreement.

Moreover, prior to any increase in the Percentage Advance Rate going into effect, the delinquency rate with respect to the Borrower's Receivables must be satisfactory to Silicon in its sole discretion.

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2. INTEREST.

INTEREST RATE (Section 1.2):

A rate equal to the "Prime Rate" in effect from time to time, plus 2.0% per annum. Interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. "Prime Rate" means the rate announced from time to time by Silicon as its "prime rate;" it is a base rate upon which other rates charged by Silicon are based, and it is not necessarily the best rate available at Silicon. The interest rate applicable to the Obligations shall change on each date there is a change in the Prime Rate.

MINIMUM MONTHLY
INTEREST (Section 1.2):

$5,000 per month.

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3. FEES (Section 1.4):

Loan Fee:

$43,000, payable concurrently herewith.

Collateral Monitoring Fee:

$500, per month, payable in arrears (prorated for any partial month at the beginning and at termination of this Agreement).

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4. MATURITY DATE
(Section 6.1):

One year from the date of this Agreement.

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5. FINANCIAL COVENANTS.
(Section 5. 1):

Borrower shall comply with each of the following covenant(s). Compliance shall be. determined as of the end of each month, except as otherwise specifically provided below:

MINIMUM TANGIBLE
NET WORTH:

Borrower shall maintain, at the Borrower level only and not consolidated with any subsidiaries, a Tangible Net Worth of not less than $6,000,000, plus 25% of the consideration received after the date hereof for the issuance of equity securities of the Borrower; PROVIDED, HOWEVER, for the month of August 2001 only, the 25% will be applicable only to all consideration received in excess of $4,000,000; and

Borrower shall maintain, on a consolidated basis, a Tangible Net Worth of not less than $5,000,000, PLUS 25% of the consideration received after the date hereof for the issuance of equity securities of the Borrower; PROVIDE, HOWEVER, for the month of August 2001 only, the 25% will be applicable only to all consideration received in excess of $4,000,000.

DEFINITIONS.

For purposes of the foregoing financial covenants, the following term shall have the following meaning:

"Current assets", "current liabilities" and "liabilities" shall have the meaning ascribed thereto by generally accepted accounting principles.

"Tangible Net Worth" shall mean the excess of total assets over total liabilities, determined in accordance with generally accepted accounting principles, with the following adjustments:

(A) there shall be excluded from assets: (i) notes, accounts receivable and other obligations owing to Borrower from, its officers or other Affiliates, and (ii) all assets which would be classified as intangible assets under generally accepted accounting principles, including without limitation goodwill, licenses, patents, trademarks, trade names, copyrights, capitalized software and organizational costs, licenses and franchises

(B) there shall be excluded from liabilities: all indebtedness which is subordinated to the Obligations under a subordination agreement in form specified by Silicon or by language in the instrument evidencing the indebtedness which is acceptable to Silicon in its discretion.

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6. REPORTING.
(Section 5.3):

Borrower shall provide Silicon with the following:

1. Monthly Receivable agings, aged by invoice date, within fifteen days after the end of each month.

2. Monthly accounts payable agings, aged by invoice date, and outstanding or held check registers, if any, within fifteen days after the end of each month.

3. Monthly reconciliations of Receivable agings; (aged by invoice date), transaction reports, and general ledger, within fifteen days after the end of each month.

4. Monthly perpetual inventory reports for the Inventory valued on a first-in, first-out basis at the lower of cost or market (in

accordance with generally accepted accounting principles) or such other inventory reports as are reasonably requested by Silicon, all within fifteen days after the end of each month.

5. Monthly unaudited financial statements, as soon as available, and in any event within thirty days after the end of each month.

6. Monthly Compliance Certificates, within thirty days after the end of each month, in such form as Silicon shall reasonably specify, signed by the Chief Financial Officer of Borrower, certifying that as of the end of such month Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Silicon shall reasonably request, including, without limitation, a statement that at the end of such month there were no held checks.

7. Quarterly unaudited financial statements, as soon as available, and in any event within forty-five days after the end of each fiscal quarter of Borrower.

8. Annual operating budgets (including income statements, balance sheets and cash flow statements, by month) for the upcoming fiscal year of Borrower within thirty days prior to the end of each fiscal year of Borrower.

9. Annual financial statements, as soon as available, and in any event within 120 days following the end of Borrower's fiscal year, certified by independent certified public accountants acceptable to Silicon.

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7. COMPENSATION
(Section 5.5):

Not Applicable.

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8. BORROWER INFORMATION:

Prior Names of Borrower
(Section 3.2):

See Representations and Warranties dated March 14, 2001.

Prior Trade Names of Borrower
(Section 3.2):

See Representations and Warranties dated March 14, 2001.

Existing Trade Names of Borrower
(Section 3.2):

See Representations and Warranties dated March 14, 2001.

Other Locations and Addresses
(Section 3.3):

See Representations and Warranties dated March 14, 2001.

Material Adverse Litigation
(Section 3.10):

None.

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9. OTHER COVENANTS
(Section 5.1):

Borrower shall at all times comply with all of the following additional covenants:

(1) BANKING RELATIONSHIP. Borrower shall at all times maintain its primary banking relationship with Silicon.

(2) SUBORDINATION OF INSIDE DEBT. All present and future indebtedness of Borrower to its officers, directors and shareholders ("Inside Debt") shall, at all times, be subordinated to the Obligations pursuant to a subordination agreement on Silicon's standard form. Borrower represents and warrants that there is no Inside Debt presently outstanding, except for the following: NONE. Prior to incurring any Inside Debt in the future, Borrower shall cause the person to whom such Inside Debt will be owed to execute and deliver to Silicon a subordination agreement on Silicon's standard form.

(3) WARRANTS. Borrower shall provide Silicon with five-year warrants to purchase 42,490 shares of Series E Preferred Stock of the Borrower, at $3.036 per share, on the terms and conditions in the Warrant to Purchase Stock and related documents being executed concurrently herewith.

(4) FUTURE WARRANTS. In the event the Maximum Credit Limit (as defined above) increases, Borrower agrees that it shall issue to Silicon additional warrants to purchase stock of Borrower, on Silicon's standard form with such modifications as are acceptable to Silicon in its sale discretion, for an amount of shares equal to 3% of the increase in the Maximum Credit Limit divided by the initial exercise price of such warrant. The class of stock and initial exercise price shall be determined at or about the time of such proposed increase in the Maximum Credit Limit.

(5) INTELLECTUAL PROPERTY SECURITY AGREEMENT. Concurrently, Borrower is executing and delivering to Silicon a Collateral Assignment, Patent Mortgage and Security Agreement between Borrower and Silicon (the "Intellectual Property Agreement"). Borrower shall (i) cause the Intellectual Property Agreement to be recorded in the United States Patent and Trademark Office and (ii) provide evidence of such recordation to Silicon.

(6) LANDLORD WAIVERS. Within 30 days after the date hereof, Borrower shall cause the record owners (other than Borrower) of all real property upon which Borrower maintains inventory to execute and deliver to Silicon, an Silicon's standard form, a landlord waiver containing such other terms and conditions as Silicon may require.

(7) DEFAULT NOTICE FROM HELLER FINANCIAL. Within 10 Business Days after the date hereof, Borrower shall cause Heller Financial to amend its financing agreements with Borrower's subsidiary(ies) (the "Heller Documents") to require Heller Financial to provide Silicon with written notice of my default under the Heller Documents and Borrower shall provide Silicon with evidence of such amendment to the Heller Documents.

Borrower: Silicon:

DIGIRAD CORPORATION SILICON VALLEY BANK

By /S/ SCOTT HUENNEKENS
President or Vice President

By: /S/ ILLEGIBLE
Title: SENIOR VICE PRESIDENS

By /S/ GARY ATKINSON
Secretary or Ass't Secretary

COLLATERAL ASSIGNMENT, PATENT MORTGAGE
AND SECURITY AGREEMENT

This Collateral Assignment, Patent Mortgage and Security Agreement is made as of July 31, 2001 by and between Digirad Corporation ("Assignor"), and Silicon Valley Bank, California banking corporation ("Assignee").

RECITALS

A. Assignee has agreed to lend to Assignor certain funds (the "Loans'), pursuant to a Loan and Security Agreement dated July 31, 2001 (the "Loan Agreement") and Assignor desires to borrow such funds from Assignee.

B. In order to induce Assignee to make the Loans, Assignor has agreed to assign certain intangible property to Assignee for purposes of securing the obligations of Assignor to Assignee.

NOW, THEREFORE, THE PARTIES HERETO AGREE AS FOLLOWS:

1. ASSIGNMENT, PATENT MORTGAGE AND GRANT OF SECURITY INTEREST. As collateral security for the prompt and complete payment and performance of all of Assignor's present or future indebtedness, obligations and liabilities to Assignee, Assignor hereby assigns, transfers, conveys and grants a security interest and mortgage to Assignee, as security, but not as an ownership interest, in and to Assignor's entire right, title and interest in, to and under the following (all of which shall collectively be called the "Collateral"):

(a) All of present and future United States registered copyrights and copyright registrations, including, without limitation, the registered copyrights listed in EXHIBIT A-1 to this Agreement (and including all of the exclusive rights afforded a copyright registrant in the United States under 17 U.S.C. ss.106 and any exclusive rights which may in the future arise by act of Congress or otherwise) and all present and future applications for copyright registrations (including applications for copyright registrations of derivative works and compilations) (collectively, the "Registered Copyrights"), and any and all royalties, payments, and other amounts payable to Assignor in connection with the Registered Copyrights, together with all renewals and extensions of the Registered Copyrights, the right to recover for all past, present, and future infringements; of the Registered Copyrights, and all computer programs, computer databases, computer program flow diagrams, source codes, object codes and all tangible property embodying or incorporating the Registered Copyrights, and all other rights of every kind whatsoever accruing thereunder or pertaining thereto.

(b) All present and future copyrights which are not registered in the United States Copyright Office (the "Unregistered Copyrights"), whether now owned or hereafter acquired, including without limitation the Unregistered Copyrights listed in EXHIBIT A-2 to this Agreement, and any and all royalties, payments, and other amounts payable to Assignor in connection with the Unregistered Copyrights, together with all renewals and extensions of the Unregistered Copyrights, the right to recover for all past, present, and future infringements of the Unregistered Copyrights, and all computer programs, computer databases, computer program

flow diagrams, source codes, object codes and all tangible property embodying or incorporating the Unregistered Copyrights, and all other rights of every kind whatsoever accruing thereunder or pertaining thereto. The Registered Copyrights and the Unregistered Copyrights collectively are referred to herein as the "Copyrights."

(c) All right, title and interest in and to any and all present and future license agreements with respect to the Copyrights, including without limitation the license agreements listed in EXHIBIT A-3 to this Agreement (the "Licenses").

(d) All present and future accounts, accounts receivable

and other rights to payment arising from, in connection with or relating to the Copyrights.

(e) Any and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;

(f) Any and all design rights which may be available to Assignor now or hereafter existing, created, acquired or held;

(g) All patents, patent applications and like protections including, without limitation, improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same, including without limitation the patents and patent applications set forth on Exhibit B attached hereto (collectively, the "Patents");

(h) Any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Assignor connected with and symbolized by such trademarks, including without limitation those set forth on EXHIBIT C attached hereto (collectively, the "Trademarks")

(i) Any and all claims for damages by way of past, present and future infringements of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

(j) All licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(k) All amendments, extensions, renewals and extensions of any of the Copyrights, Trademarks or Patents; and

(1) All proceeds and products of the foregoing, including without limitation all, payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

THE INTEREST IN THE COLLATERAL BEING ASSIGNED HEREUNDER SHALL NOT BE CONSTRUED AS A CURRENT ASSIGNMENT, BUT AS A CONTINGENT

ASSIGNMENT TO SECURE ASSIGNOR'S OBLIGATIONS TO ASSIGNEE UNDER THE LOAN AGREEMENT.

2. AUTHORIZATION AND REQUEST. Assignor authorizes and requests that the Register of Copyrights and the Commissioner of Patents and Trademarks record this conditional assignment.

3. COVENANTS AND WARRANTIES. Assignor represents, warrants, covenants and agrees as follows:

(a) Assignor is now the sole owner of the Collateral, except for non-exclusive licenses granted by Assignor to its customers in the ordinary course of business.

(b) Listed on Exhibits A-1 and A-2 are all copyrights owned by Assignor, in which Assignor has an interest, or which are used in Assignor's business.

(c) Each employee, agent and/or independent contractor who has participated in the creation of the property constituting the Collateral has either executed an assignment of his or her rights of authorship to Assignor or is an employee of Assignor acting within the scope of his or her employment and was such an employee at the time of said creation.

(d) All of Assignor's present and future software, computer programs and other works of authorship subject to United States copyright protection, the sale, licensing or other disposition of which results in royalties receivable, license fees receivable, accounts receivable or other sums owing to Assignor (collectively, "Receivables"), have been and shall be registered with the United States Copyright Office prior to the date Assignor requests or accepts any loan from Assignee with respect to such Receivables and prior to the date Assignor includes any such Receivables in any accounts receivable aging, borrowing base report or certificate or other similar report provided to Assignee, and Assignor shall provide to Assignee copies of all such registrations promptly upon the receipt of the same.

(e) Assignor shall undertake all reasonable measures to cause its employees, agents and independent contractors to assign to Assignor all rights of authorship to any copyrighted material in which Assignor has or may subsequently acquire any right or interest.

(f) Performance of this Assignment does not conflict with or result in a breach of any agreement to which Assignor is bound, except to the extent that certain intellectual property agreements prohibit the assignment of the rights thereunder to a third party without the licensor's or other party's consent and this Assignment constitutes an assignment.

(g) During the term of this Agreement, Assignor will not transfer or otherwise encumber any interest in the Collateral, except for non-exclusive licenses granted by Assignor in the ordinary course of business or as set forth in this Assignment;

(h) Each of the Patents is valid and enforceable, and no part of the Collateral has been judged invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Collateral violates the rights of any third party;

(i) Assignor shall promptly advise Assignee of any material adverse change in the composition of the Collateral, including but not limited to any subsequent ownership tight of the Assignor in or to any Trademark, Patent or Copyright not specified in this Assignment;

(j) Assignor shall (i) protect, defend and maintain the validity and enforceability of the Trademarks, Patents and Copyrights, (ii) use its best efforts to detect infringements of the Trademarks, Patents and Copyrights and promptly advise Assignee in writing of material infringements detected and (iii) not allow any Trademarks, Patents, or Copyrights to be abandoned, forfeited or dedicated to the public without the written consent of Assignee, which shall not be unreasonably withheld unless Assignor determines that reasonable business practices suggest that abandonment is appropriate.

(k) Assignor shall promptly register the most recent version of any of Assignor's Copyrights, if not so already registered, and shall, from time to time, execute and file such other instruments, and take such further actions as Assignee may reasonably request from time to time to perfect or continue the perfection of Assignee's interest in the Collateral;

(1) This Assignment creates, and in the case of after acquired Collateral, this Assignment will create at the time Assignor first has rights in such after acquired Collateral, in favor of Assignee a valid and perfected first priority security interest in the Collateral in the United States securing the payment and performance of the obligations evidenced by the Loan Agreement upon making the filings referred to in clause (m) below;

(m) To its knowledge, except for, and upon, the filing with the United States Patent and Trademark office with respect to the Patents and Trademarks and the Register of Copyrights with respect to the Copyrights necessary to perfect the security interests and assignment created hereunder and except as has been already made or obtained, no authorization, approval or other action by, and no notice to or filing with, any U.S. governmental authority or U.S. regulatory body is required either (i) for the grant by Assignor of the security interest granted hereby or for the execution, delivery or performance of this Assignment by Assignor in the U.S. or (ii) for the perfection in the United States or the exercise by Assignee of its rights and remedies thereunder;

(n) All information heretofore, herein or hereafter supplied to Assignee by or on behalf of Assignor with respect to the Collateral is accurate and complete in all material respects.

(o) Assignor shall not enter into any agreement that would materially impair or conflict with Assignor's obligations hereunder without Assignee's prior written consent, which consent shall not be unreasonably withheld. Assignor shall not permit the inclusion in any material contract to which it becomes a party of any provisions that could or might in any way prevent the creation of a security interest in Assignor's rights and interest in any property included within the definition of the Collateral acquired under such contracts, except that certain contracts may contain anti-assignment provisions that could in effect prohibit the creation of a security interest in such contracts.

(p) Upon any executive officer of Assignor obtaining actual knowledge thereof, Assignor will promptly notify Assignee in writing of any event that materially adversely affects the value of any material Collateral, the ability of Assignor to dispose of any material collateral or the rights and remedies of Assignee in relation thereto, including the levy of any legal process against any of the Collateral.

4. ASSIGNEE'S RIGHTS. Assignee shall have the right, but not the obligation, to take, at Assignor's sole expense, any actions that Assignor is

required under this Assignment to take but which Assignor fails to take, after fifteen (15) days' notice to Assignor. Assignor shall reimburse and indemnify Assignee for all reasonable costs and reasonable expenses incurred in the reasonable exercise of its rights under this section 4.

5. INSPECTION RIGHTS. Assignor hereby grants to Assignee and its employees, representatives and agents the right to visit, during reasonable hours upon prior reasonable written notice to Assignor, and any of Assignor's plants and facilities that manufacture, install or store products (or that have done so daring the prior six-month period) that are sold utilizing any of the Collateral, and to inspect the products and quality control records relating thereto upon reasonable written notice to Assignor and as often as may be reasonably requested, but not more than one (1) in every six (6) months; provided, however, nothing herein shall entitle Assignee access to Assignor's trade secrets and other proprietary information.

6. FURTHER ASSURANCES, ATTORNEY IN FACT.

(a) Upon an Event of Default, on a continuing basis thereafter, Assignor will, subject to any prior licenses, encumbrances and restrictions and prospective, licenses, make, execute, acknowledge and deliver, and file and record in the proper filing and recording places in the United States, all such instruments, including, appropriate financing and continuation statements and collateral agreements and filings with the United States Patent and Trademarks Office and the Register of Copyrights, and take all such action as may reasonably be deemed necessary or advisable, or as requested by Assignee, to perfect Assignee's security interest in all Copyrights, Patents and Trademarks and otherwise to carry out the intent and purposes of this Collateral Assignment, or for assuming and confirming to Assignee the grant or perfection of a security interest in all Collateral.

(b) Upon an Event of Default, Assignor hereby irrevocably appoints Assignee as Assignor's attorney-in-fact, with full authority in the place and stead of Assignor and in the name of Assignor, Assignee or otherwise, from time to time in Assignee's discretion, upon Assignor's failure or inability to do so, to take any action and to execute any instrument which Assignee may deem necessary or advisable to accomplish the purposes of this Collateral Assignment, including:

(i) To modify, in its sole discretion, this Collateral Assignment without first obtaining Assignor's approval of or signature to such modification by amending Exhibit A-1, Exhibit A-2, Exhibit A-3, Exhibit B and Exhibit C, thereof, as appropriate, to include reference to any right, title or interest in

any Copyrights, Patents or Trademarks acquired by Assignor after the execution hereof or to delete any reference to any right, title or interest in any Copyrights, Patents or Trademarks in which Assignor no longer has or claims any right, title or interest; and

(ii) To file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of Assignor where permitted by law.

7. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an Event of Default under the Assignment:

(a) An Event of Default occurs under the Loan Agreement; or

(b) Assignor breaches any warranty or agreement made by Assignor in this Assignment.

8. REMEDIES. Upon the occurrence and continuance of an Event of Default, Assignee shall have the right to exercise all the remedies of a secured party under the California Uniform Commercial Code, including without limitation the right to require Assignor to assemble the Collateral and any tangible property in which Assignee has a security interest and to make it available to Assignee at a place designated by Assignee. Assignee shall have a nonexclusive, royalty free license to use the Copyrights, Patents and Trademarks to the extent reasonably necessary to permit Assignee to exercise its rights and remedies upon the occurrence of an Event of Default. Assignor will pay any expenses (including reasonable attorney's fees) incurred by Assignee in connection with the exercise of any of Assignee's rights hereunder, including without limitation any expense incurred in disposing of the Collateral, All of Assignee's rights and remedies with respect to the Collateral shall be cumulative.

9. INDEMNITY. Assignor agrees to defend, indemnify and hold harmless Assignee and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this Agreement and (b) all losses or expenses in any way suffered, incurred, or paid by Assignee as a

result of or in any way arising out of, following or consequential to transactions between Assignee and Assignor, whether under this Assignment or otherwise (including without limitation, reasonable attorneys fees and reasonable expenses), except for losses arising form or out of Assignee's gross negligence or willful misconduct.

10. RELEASE. At such time as Assignor shall completely satisfy all of the obligations secured hereunder, Assignee shall execute and deliver to Assignor all assignments and other instruments as may be reasonably necessary or proper to terminate Assignee's security interest in the Collateral, subject to any disposition of the Collateral which may have been made by Assignee pursuant to this Agreement. For the purpose of this Agreement, the obligations secured hereunder shall be deemed to continue if Assignor enters into any bankruptcy or similar proceeding at a time when any amount paid to Assignee could be ordered to be repaid as a preference or pursuant to a similar theory, and shall continue until it is finally determined that no such repayment can be ordered.*

*NOTWITHSTANDING THE FOREGOING, ASSIGNEE'S SECURITY INTEREST IN THE COLLATERAL IS SUBJECT TO RELEASE UPON THE SATISFACTION BY ASSIGNOR OF THE CONDITIONS PROVIDED FOR IN SECTION 2.1 OF THE LOAN AGREEMENT.

11. NO WAIVER. No course of dealing between Assignor and Assignee, nor any failure to exercise nor any delay in exercising, on the part of Assignee, any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement, shall operate as a waiver. No single or partial exercise of any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement by Assignee shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege by Assignee.

12. RIGHTS ARE CUMULATIVE. All of Assignee's rights and remedies with respect to the Collateral whether established by this Agreement, the Loan Agreement, or any other documents or agreements, or by law shall be cumulative and may be exercised concurrently or in any order.

13. COURSE OF DEALING. No course of dealing, nor any failure to exercise, nor any delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

14. ATTORNEYS' FEES. If any action relating to this Assignment is brought by either party hereto against the other party, the prevailing party shall be entitled to recover reasonable attorneys fees, costs and disbursements.

15. AMENDMENTS. This Assignment may be amended only by a written instrument signed by both parties hereto. To the extent that any provision of this Agreement conflicts with any provision of the Loan Agreement, the provision giving Assignee greater rights or remedies shall govern, it being understood that the purpose of this Agreement is to add to, and not detract from, the rights granted to Assignee under the Loan Agreement. This Agreement, the Loan Agreement, and the documents relating thereto comprise the entire agreement of the parties with respect to the matters addressed in this Agreement.

16. SEVERABILITY. The provisions of this Agreement are severable. If any provision of this Agreement is held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforccability shall affect only such provision, or part thereof, in such jurisdiction, and shall not in any manner affect such provision or part thereof in any other jurisdiction, or any other provision of this Agreement in any jurisdiction.

17. COUNTERPARTS. This Assignment may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute the same instrument.

18. CALIFORNIA LAW AND JURISDICTION. This Assignment shall be governed by the laws of the State of California, without regard for choice of law provisions. Assignor and Assignee consent to the nonexclusive jurisdiction of any state or federal court located in Orange County, California.

19. CONFIDENTIALITY. In handling any confidential information, Assignee shall exercise the same degree of care that it exercises with respect to its own proprietary information of the

same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Assignment except that the disclosure of this information may be made (i) to the affiliates of the Assignee, (ii) to prospective transferee or purchasers of an interest in the obligations secured hereby, provided that they have entered into a comparable confidentiality agreement in favor of Assignor and have delivered a copy to Assignor, (iii) as

required by law, regulation, rule or order, subpoena judicial order or similar order and (iv) as may be required in connection with the examination, audit or similar investigation of Assignee.

20. WAIVER OF RIGHT TO JURY TRIAL. ASSIGNEE AND ASSIGNOR EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (I) TIES AGREEMENT; OR (II) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN ASSIGNEE AND ASSIGNOR; OR (III) ANY CONDUCT, ACTS OR OMISSIONS OF ASSIGNEE OR ASSIGNOR OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH ASSIGNEE OR ASSIGNOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment on the day and year first above written.

ASSIGNOR:

DIGIRAD CORPORATION

By: /S/ GARY JG ATKINSON

Title: CHIEF FINANCIAL OFFICER

Name (please print):

GARY JG ATKINSON

ADDRESS OF ASSIGNOR:

9350 Trade Place
San Diego, CA 92126

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN DIEGO)

On 3 AUGUST, 2001, before me, CLAUDIA I. PEREZ, Notary Public, personally appeared, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

Witness my hand and official seal.

/S/ CLAUDIA I. PEREZ

(Seal)

Claudia I. Perez
Comm. #1158002
Notary Public California
San Diego County
Comm Exp. Oct. 6, 2001

EXHIBIT "A-1"

REGISTERED COPYRIGHTS

REG. NO.	REG. DATE	COPYRIGHT
	NONE	

EXHIBIT "A-3"

DESCRIPTION OF LICENSE AGREEMENTS

1. Software license agreement with Segami Corporation dated June 16,1999.

2. License agreement with Ethicon Endo-Surgery, Inc. dated June 22, 1999.

3. Software products license agreement with Strategic Information Group, Inc. dated December 31, 1998.

4. Software license agreement with Corporate Management Solutions, Inc. dated July 21, 1999.

5. Software license and maintenance agreement with Cadence Design Systems, Inc. dated November 16, 1999.

6. Software products license agreement with QAD, Inc. dated January 6, 1999.

EXHIBIT "B"
PATENTS

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*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

EXHIBIT "C"
TRADEMARKS

MARK	REG./FILE DATE	APP./SERIAL NO.
Digirad Imaging Solutions	March 6, 2001	76220818
Agile	June 5, 2000	76064092
DIGIRAD	December 22, 1999	75879709
Spectour	September 14, 1999	75799823
2020tc Imager	September 14, 1999	75799499
SpectrumPlus	November 22, 1996	75202359
Notebook Imager	Digirad	September

EXHIBIT 10.10

00080103

LEASE NUMBER

MARCAP CORPORATION

Area Code 312/641-0233 Facsimile Machine: 312/425-2441

EQUIPMENT LEASE

Lease date as of OCTOBER 1, 2000 between MARCAP CORPORATION a Delaware corporation having its principal office at 20 North Wacker Drive, Suite 2150, Chicago, Illinois 60606 ("Leassor"), and ORION IMAGING SYSTEMS, INC., a CORPORATION organized under the laws of the state of DELAWARE and having its principal office at 9350 TRADE PLACE, SAN DIEGO, CA 92126 ("Lessee").

1. LEASE. Subject to the terms hereof, Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the equipment ("Equipment") described on Equipment Schedules ("Schedule or Schedules") to this Lease executed from time to time by Lessor and Lessee, all of which are made a part hereof. For the purposes of this Equipment Lease, each Schedule relating to one or more items of Equipment shall be deemed to incorporate all of the terms and provisions of this Equipment Lease.

2. TERMS. The term of Lease for the items of Equipment included on any Schedule shall commence on the date such items are accepted by Lessee ("Commencement Date") and, subject to the terms hereof, shall continue for the period of time set forth on said Schedule.

3. RENTAL. Lessee shall pay to Lessor total rentals for the Equipment described on each Schedule equal to the product of (i) the periodic rent payment and (ii) the number of rent payments specified on such Schedule. Except as otherwise set forth in the Schedule, rent payments shall be due each month in advance beginning with the Commencement Date. All rent shall be paid to Lessor at 20 North Wacker Drive, Suite 2720, Chicago, Illinois 60606, or at such other address as Lessor may specify, without notice or demand and without abatement, deduction or setoff. Rent and any other payments due hereunder not made within ten (10) days of the due date shall be subject to a service charge equal to the lesser of (i) five percent (5%) of the overdue payment, (ii) the maximum amount permitted by law.

4. ERRORS IN ESTIMATED COST; OMISSIONS. The rentals set forth on each Schedule are based upon the estimated costs of Equipment and shall be adjusted proportionately if the actual cost differs from the estimate. Lessee authorizes Lessor, with respect to each Schedule, (i) to so adjust the rent once the actual cost is known, (ii) to insert on such Schedule serial numbers or other more specific descriptions of the Equipment. "Cost, as used herein, means the total cost of the Lessor of purchasing and causing delivery and installation of the Equipment, including taxes, transportation and any other charges paid by Lessor.

5. DISCLAIMER OF WARRANTIES. LESSEE ACKNOWLEDGES THAT: (i) THE EQUIPMENT IS A SIZE, DESIGN, CAPACITY AND MANUFACTURE SELECTED BY LESSEE; (ii) LESSOR IS NOT A MANUFACTURER NOR A DEALER IN PROPERTY OF SUCH KIND; (iii) NEITHER THE VENDOR NOR ANY REPRESENTATIVE OF ANY VENDOR OR ANY MANUFACTURER OF THE EQUIPMENT IS AN AGENT OF LESSOR OR AUTHORIZED TO WAIVE OR ALTER ANY TERM OR CONDITION OF THIS LEASE; AND (iv) LESSOR HAS NOT MADE AND DOES NOT HEREBY MAKE ANY WARRANTY, EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF THE EQUIPMENT. No defect in, unfitness of or an inability of Lessee to use any Equipment, howsoever caused, shall relieve Lessee from its obligation to pay rentals or from any other obligations. Lessor shall not in any event be responsible to Lessee or anyone claiming through Lessee for any damages, direct, consequential, or otherwise, resulting from the deliver, installation, use, operation, performance or condition of any Equipment, or any delay or failure by any vendor in delivering and/or installing any Equipment or performing any service for Lessee. Nothing herein shall be construed as depriving Lessee of whatever rights Lessee may have against any vendor of the Equipment, and Lessor hereby authorizes Lessee at Lessee's expense, to assert for Lessor's account during the term of this Lease, all of Lessor's rights under any warranty or promise given by a vendor and relating to Equipment so long as Lessee is not in default hereunder. Lessee may communicate with the vendor supplying the Equipment and receive an accurate and complete statement of those promises and warranties, including any disclaimers and limitations of them or of remedies.

6. ACCEPTANCE. Lessee shall inspect each item of Equipment within 72 hours after delivery or, where applicable, installation thereof. Unless Lessee within such period of time gives written notice to Lessor and the vendor specifying any defect in or other proper objection to an item of Equipment, it shall be conclusively presumed between Lessor and Lessee that Lessee has fully inspected such Equipment, that such Equipment is in full compliance with the terms of this Lease, that such Equipment is in good condition (operating and otherwise) and repair, and that Lessee has unconditionally accepted such Equipment. Forthwith after acceptance of each item of Equipment, Lessee shall execute and deliver to Lessor, Lessor's form of Delivery and Acceptance Acknowledgment.

7. MAINTENANCE. Lessee will maintain the Equipment in good operating order and appearance, protect the Equipment from deterioration, other than normal wear and tear, and will not use the Equipment for any purpose other than that for which it was designed. Lessee will maintain in force a standard maintenance contract with the manufacturer of the Equipment or a party authorized by the manufacturer and acceptable to the Lessor to perform such maintenance (the "maintenance contractor"), and upon request will provide Lessor with a complete copy of that contract. Lessee's obligation regarding the maintenance of the Equipment will include, without limitation, all maintenance and repair recommended or advised either by the manufacturer, government agencies, or regulatory bodies and those commonly performed by prudent business and/or professional practice. Upon return of the Equipment, Lessee will provide a letter from the maintenance contractor certifying that the Equipment meets all current specifications of the manufacturer, is in compliance with all pertinent governmental or regulatory rules, laws or guidelines for its operation or use, is qualified for the maintenance contractor's standard maintenance contract and is at then current release, revision and engineering change levels. Lessee agrees to pay any costs necessary for the manufacturer to bring the Equipment to then current release, revision and engineering change levels, and to re-certify the Equipment as eligible for such maintenance contract at the expiration of the lease term. The lease term will continue upon the same terms and conditions until recertification has been obtained.

8. SECURITY DEPOSIT. The security deposit, if any, specified on each Schedule shall secure the full and faithful performance of all agreements, obligations and warranties of Lessee hereunder, including, but not limited to, the agreement of Lessee to return the Equipment upon the expiration or earlier termination of this Lease in the condition specified. Such deposit shall not excuse the performance of any such agreements, obligations or warranties of Lessee or prevent a default. Lessor may (but need not) apply all or any part of such security deposit toward discharge of any overdue obligation of Lessee. To the extent any portion of the security deposit is so applied by Lessor, Lessee shall forthwith restore the security deposit to its full amount. If upon the expiration of the term of this Lease, Lessee shall have fully complied with all of its agreements, obligations and warranties hereunder, any unused portion of such security deposit will be refunded to Lessee. Lessor shall not be obligated to pay interest on the security deposit.

9. INSURANCE. Lessee, at its expense, shall keep the Equipment insured against all risk of loss or physical damage (including comprehensive boiler and machinery coverage and earthquake and flood insurance if Lessor determines that such events could occur in the area where the Equipment is located) for the full replacement value of the Equipment. Lessee shall further provide and maintain comprehensive public liability insurance against claims for bodily injury, death and/or property damage arising out of the use, ownership, possession, operation or condition of the Equipment, together with such other insurance as may be required by law or reasonably requested by Lessor. All said insurance shall name both Lessor and Lessee as parties insured and shall be in form and amount and with insurers satisfaction to Lessor, and Lessee shall furnish to Lessor certified copies or certificates of the policies of such insurance and each renewal thereof. Each insurer must agree, by endorsement upon the policy or policies issued by it, that it will give Lessor not less than 30 days written notice before such policy or policies are canceled or altered, and, under the physical damage insurance, (a) that losses shall be payable solely to Lessor, and (b) that no act or omission of Lessee or any of its officers, agents, employees or representatives shall affect the obligation of the insurer to pay the full amount of any loss. Lessee hereby irrevocably authorizes Lessor to make, settle and adjust claims under such policy or policies of physical damage insurance and to endorse the name of Lessee on any check or other item of payment for the proceeds thereof; it being understood, however, that unless otherwise directed in writing by Lessor, Lessee shall make and file timely all claims under such policy or policies, and unless Lessee is then in default, Lessee may, with the prior written approval of Lessor (which will not be unreasonably withheld) settle and adjust all such claims.

10. RISK OF LOSS. As used herein, the term "Event of Loss" shall mean any of

the following events with respect to any item of the Equipment: (a) the actual or constructive total loss of such Equipment; (b) the loss, theft, or destruction of such Equipment or damage to such Equipment to such extent as shall make repair thereof uneconomical or shall render such Equipment permanently unfit for normal use for any reason whatsoever; or (c) the condemnation, confiscation, requisition, seizure, forfeiture or other taking of title to or use of such Equipment. Except as expressly hereinafter provided, the occurrence of any Event of Loss or other damage to or deprivation of use of any Equipment, howsoever occasioned, shall not reduce or impair any obligation of Lessee hereunder, and, without limiting the foregoing, shall not result in any abatement or reduction in rentals whatsoever. Lessee hereby assumes and shall bear, from the time such risk passes to Lessor from the vendor until expiration or termination of the lease term and return of the Equipment to Lessor, the entire risk of any Event of Loss or any other damage to or deprivation of use of the Equipment, howsoever occasioned.

Upon the occurrence of any damage to any Equipment not constituting an Event of Loss, Lessee, at its sole cost and expense, shall promptly repair and restore such Equipment so as to return such Equipment to substantially the same condition as existed prior to the date of such occurrence (assuming such Equipment was then in the condition required by this Lease). Provided that Lessee is not then in default hereunder, upon receipt of evidence reasonably satisfactory to Lessor of completion of such repairs and restoration in accordance with the terms of this Lease, Lessor will apply any insurance proceeds received by Lessor on account of such occurrence to the cost of such repairs and restoration; it being understood, however, that if at such time Lessee shall be in default hereunder, Lessor may, at its option, retain any part or all of such proceeds and apply same to any obligations of Lessee to Lessor.

Upon the occurrence of an Event of Loss, Lessee shall immediately notify Lessor in writing of such occurrence, fully informing Lessor of all details with respect thereto, and, on or before the first to occur of (i) 30 days after the date upon which such Event of Loss occurs, or (ii) 5 days after the date on which either Lessor shall receive any proceeds of insurance in respect of such Event of Loss or any underwriter of insurance on the Equipment shall advise Lessor or Lessee in writing that it disclaims liability in respect of such Event of Loss, if such be the case, Lessee shall pay to Lessor an amount equal to the sum of (a) accrued but unpaid rent and other sums due under the Lease plus (b) the present value of all future rentals reserved in the Lease and contracted to be paid over the unexpired term discounted at 6% per annum plus (c) the present value of Lessor's residual value of the Equipment as of the expiration of the term discounted at 6% per annum (the "Stipulated Loss Value"), less the amount of any insurance proceeds or condemnation or similar award by a governmental authority then actually received by Lessor on account of such Event of Loss. No delay or refusal by any insurance company or governmental authority in making payment on account of such Event of Loss shall extend or otherwise affect the obligations of Lessee hereunder. Lessee shall continue to pay all rentals and other sums due hereunder up to and including the date upon which the Stipulated Loss Value is actually received in full by Lessor, whereupon this Lease with respect to such Equipment shall terminate and all rentals reserved hereunder with respect to such Equipment from the date such payment is received in full by Lessor, as aforesaid, to what would have been the end of the term hereof, shall abate. No such payment shall affect Lessee's obligations with

respect to Equipment not subject to an Event of Loss. After receipt by Lessor of all sums due hereunder, Lessor will upon request of Lessee transfer its interest, if any, in such Equipment to Lessee on an "as is, where is" basis and without warranty by or recourse to Lessor.

The proceeds of insurance in respect of an Event of Loss and any award on account of any condemnation or other taking of any Equipment by a governmental authority shall be paid to Lessor and applied by Lessor against the obligation of Lessee to pay Lessor the Stipulated Loss Value of such Equipment (or, if Lessee shall have first paid the Stipulated Loss Value in full, shall be promptly paid over by Lessor to Lessee up to the extent necessary to reimburse Lessee for payment of the Stipulated Loss Value); and the balance, if any, of such proceeds or award shall be paid over promptly by Lessor to Lessee if Lessee is not then in default hereunder. If Lessee is in default hereunder, Lessor may at its option apply all or any part of such proceeds to any obligations of Lessee to Lessor.

11. INDEMNITY. Lessee shall indemnify and hold Lessor harmless from and against any and all claims, costs, expenses (including attorneys' fees) losses and liabilities of whatsoever nature arising out of or occasioned by or in connection with (i) the purchase, delivery, installation, acceptance, rejection, ownership, leasing, possession, use, operation, condition or return of any Equipment including, without limitation, any claim alleging latent or other defects and any claim arising out of strict liability in tort, or (ii) any breach by Lessee of any of its obligations hereunder.

12. TAXES. Lessee shall pay as and when due, and indemnify and hold Lessor harmless from and against, all present and future taxes and other governmental charges (including, without limitation, sales, use, leasing, stamp and personal property taxes and license and registration fees), and amounts in lieu of such taxes and charges and any penalties and interest on any of the foregoing, imposed, levied or based upon, in connection with or as a result of the purchase, ownership, delivery, leasing, possession or use of the Equipment or the exercise by Lessee of any option hereunder, or based upon or measured by rentals or receipts with respect to this Lease. Lessee shall not, however, be obligated to pay any taxes on or measured by Lessor's net income. Lessee authorizes Lessor to add to the amount of each rental installment any sales or leasing tax that may be imposed on or measured by such rental installment. Notwithstanding the foregoing, unless and until Lessor notifies Lessee in writing to the contrary, Lessor will file all personal property tax returns covering the Equipment and will pay the personal property taxes levied or assessed thereon. Lessee, upon receipt of invoice, will promptly pay to Lessor, as additional rent, an amount equal to the lessor of (i) property taxes so paid by Lessor plus the cost incurred by Lessor if Lessor elects to contest such tax, or (ii) the original property tax assessment.

If not thereby subjecting the Equipment to forfeiture or sale, Lessee may at its expense contest in good faith, by appropriate proceedings, the validity and/or amount of any of the taxes or other governmental charges described above, provided that prior written notice of any such contest shall be given to Lessor together with security satisfactory to Lessor for the payment of the amount being contested and provided further that Lessor has not contested such tax.

13. NOTICE; INSPECTION. Lessee shall give Lessor immediate notice of any attachment, judicial process, lien, encumbrance or claim affecting the Equipment, any loss or damage to the Equipment or material accident or casualty arising out of the use, operation or condition of the Equipment, and any change in the residency or principal place of business of Lessee or any guarantor of Lessee's obligations hereunder ("Guarantor"). Lessor may, (but need not), for the purpose of inspection, at all reasonable business hours, enter from time to time upon any premises where the Equipment is located.

14. ALTERATIONS. Lessee shall not make or permit any changes or alterations to the Equipment without Lessor's prior written consent. All accessories, replacements, parts and substitutions for or which are added or attached to the Equipment shall become the property of Lessor, included in the definition of Equipment, and subject to this Lease.

15. TITLE. Lessee shall keep the Equipment free from all liens and encumbrances. Lessee shall execute and/or furnish to Lessor any further instruments and assurances reasonably requested from time to time by Lessor to protect its interest, and shall otherwise cooperate to defend the title of Lessor and to maintain the status of the Equipment as personal property, including, without limitation, the execution of financing statements and the furnishing of waivers with respect to rights in the Equipment from the owners and mortgagees of the real estate on which the Equipment is or will be located. Lessor may file or record any such financing statements, waivers or with instruments in order to protect its interest. Lessee hereby irrevocably authorizes Lessor to sign on behalf of Lessee and file in the appropriate public office (s) UCC financing statements covering the Equipment and all proceeds thereof.

16. QUIET ENJOYMENT. So long as Lessee shall not be in default and fully performs all of its obligations hereunder, Lessor will not interfere with the quiet use and enjoyment of the Equipment by Lessee.

17. RETURN. Upon the expiration or earlier termination of this Lease with respect to any Equipment, Lessee, pursuant to Lessor's instructions and at Lessee's expense, will have the Equipment deinstalled, audited by the maintenance contractor or another party acceptable to Lessor, packed and shipped fully insured and in accordance with the manufacturer's instructions to the destination specified by Lessor; provided, however, that Lessor shall reimburse Lessee for any freight charges incurred at the direction of Lessor which may exceed the charges for shipment from the location of such Equipment to Lessor's place of business in Chicago, Illinois. All returned Equipment shall be in good operating order and appearance, other than normal wear and tear and shall comply with all of the requirements of Section 7. Lessee shall pay Lessor, on demand, the cost of any repairs normal wear and tear and shall comply with all of the requirements of Section 7. Lessee shall pay to Lessor, on demand, the cost of any repairs necessary to place the Equipment in the condition required by this Lease.

18. LESSEE'S WARRANTIES. In order to induce Lessor to enter into this Lease and to lease the Equipment to Lessee hereunder, Lessee represents and warrants that: (a) Disclosures. (i) its applications, financial statements and reports which have been submitted by it to Lessor are, and all information hereafter furnished by Lessee to Lessor will be, true and correct in all material respects as of the date submitted; (ii) as of the date hereof, the date of any Schedule and any lease Commencement Date, there has been no material adverse change in any matter stated in such applications,

financial statements and reports; (iii) there are no known contingent liabilities or liabilities for taxes of Lessee which are not

reflected in said financial statements or reports; and, (iv) none of the foregoing omit or omitted to state any material fact. (b) Organization. Lessee is an organizational entity described on the signature page hereof and is duly organized, validly existing and in good standing in the state first set forth above and duly qualified to do business in each state in which the Equipment will be located. (c) Power and Authority. Lessee has full power, authority and legal right to execute, deliver and perform this Lease and any Schedule thereto, and the execution, delivery and performance hereof has been duly authorized by all necessary action of Lessee. (d) Enforceability. This Lease and any Schedule or other document executed in connection therewith has been duly executed and delivered by Lessee and constitutes a legal, valid and binding obligation of Lessee enforceable in accordance with its terms. (e) Consents and Permits. The execution, delivery and performance of this Lease does not require any approval or consent of any stockholders, partners or proprietors or of any trustee or holders of any indebtedness or obligations of Lessee, and will not contravene any law, regulation, judgment or decree applicable to Lessee, or the certificate of organization, partnership agreement or by-laws of Lessee, or contravene the provisions of, or constitute a default under, or result in the creation of any lien upon any property of Lessee under any mortgage, instrument or other agreement to which Lessee is a party or by which Lessee or its assets may be bound or affected. No authorization, approval, license, filing or registration with any court or governmental agency or instrumentality except as disclosed is necessary in connection with the execution, delivery, performance, validity and enforceability of this Lease. (f) Title to Equipment. On each Commencement Date, Lessor shall have good and marketable title to the items of Equipment being subjected to this Lease on such date, free and clear of all liens created by or through Lessee.

19. ASSIGNMENT. Lessee hereby consents to any assignment by Lessor and any reassignment of this Lease or rents hereunder with or without notice. Lessee agrees that the rights of any assignee shall not be subject to any defense, setoff or counterclaim that Lessee may have against Lessor, and that any such assignee shall have all of Lessor's rights hereunder, but none of Lessor's obligations. Neither this Lease nor any of Lessee's rights hereunder shall be assignable by Lessee, either by its own act or by operation of law, without the prior written consent of Lessor, and any such attempted assignment shall be void. Lessee further agrees it will not, without the prior written consent of Lessor, allow the Equipment to be used by persons other than employees of Lessee, or rent or sublet any Equipment to others or relocate any Equipment from the premises where originally installed.

20. LESSOR'S RIGHT TO TERMINATE. Without limiting the rights of Lessor in the event of a default by Lessee, Lessor shall at any time prior to acceptance of any Equipment have the right to terminate this Lease with respect to such Equipment if (a) there shall be an adverse change in Lessee's or any Guarantor's financial position or credit standing, or (b) Lessor otherwise in good faith deems itself insecure, or (c) such Equipment is not for any reason delivered to Lessee within 90 days or accepted by Lessee within 30 days after any estimated delivery date thereof specified in the Schedule describing such Equipment, or (d) Lessee rejects any Equipment in accordance with Paragraph 6 hereof. Upon any termination by Lessor pursuant to this Paragraph, Lessee shall forthwith reimburse to Lessor all sums paid by Lessor with respect to such Equipment and pay to Lessor all other sums then due hereunder; whereupon, if Lessee is not then in default and has then fully performed all of its obligations hereunder, Lessor will, upon request of Lessee, transfer to Lessee without warranty or recourse any rights that Lessor may then have with respect to such Equipment.

21. RIGHT TO PERFORM OBLIGATIONS. If Lessee shall fail to make any payment or perform any act or obligation required of Lessee hereunder, Lessor may (but need not) at any time thereafter make such payment or perform such act or obligation at the expense of Lessee. Any expense so incurred by Lessor shall constitute additional rental hereunder payable by Lessee to Lessor upon demand with interest at the overdue rate, as hereinafter defined.

22. EVENTS OF DEFAULT. An event of default shall occur hereunder if the owner(s) of Lessee sell or otherwise transfer their controlling interest in Lessee or if Lessee (i) fails to pay any installment of rent or other payment required hereunder when due and such failure shall continue for more than five (5) days; or (ii) attempts to or does remove from the premises, sell, transfer, encumber, part with possession of, or sublet any item of Equipment; or (iii) breaches or shall have breached any representation or warranty made or given by Lessee or Guarantor in this Lease or in any other document furnished to Lessor in connection herewith, or any such representation or warranty shall be untrue or, by reason of failure to state a material fact or otherwise, shall be misleading; or (iv) fails to perform or observe any other covenant, condition or agreement to be performed or observed by it hereunder,

and such failure or breach shall continue unremedied for a period of thirty (30) days after the earlier of (a) the date on which Lessee obtains, or should have obtained knowledge of such failure or breach; or (b) the date on which notice thereof shall be given by Lessor to Lessee; or (v) shall become insolvent or bankrupt or make an assignment for the benefit of creditors or consent to the appointment of a trustee or receiver, or a trustee or receiver shall be appointed for a substantial part of its property without its consent, or bankruptcy or reorganization or insolvency proceeding shall be instituted by or against Lessee; or (vi) ceases doing business as a going concern.

23. REMEDIES UPON DEFAULT. In the event of any default by Lessee, Lessor may, at its option, do one or more of the following: (a) terminate this Lease and Lessee's rights hereunder; (b) proceed by appropriate court action to enforce performance of the terms of this Lease and/or recover damages for the breach hereof; (c) directly or by its agent, and without notice or liability or legal process, enter upon any promises where any Equipment may be located, take possession of such Equipment, and either store it on said premises without charge or remove the same (any damages occasioned by such taking of possession, storage or removal being waived by Lessee); and/or (d) declare as immediately due and payable and forthwith recover from Lessee, as liquidated damages and not as a penalty, an amount equal to the then aggregate Stipulated Loss Value of the Equipment.

In the event of any repossession of any Equipment by Lessor, Lessor may (but need not), without notice to Lessee, (A) hold or use all or part of such Equipment for any purpose whatsoever, (B) sell all or part of such Equipment at public or private sale for cash or on credit and/or (C) relet all or part of such Equipment upon such terms as Lessor may solely determine; in each case without any duty to account to Lessee except as herein expressly provided. After any repossession of Equipment by Lessor there shall be applied on account of the obligations of Lessee hereunder one of the following chosen at the option of Lessor: (x) the net proceeds actually received by Lessor from a sale of such Equipment, after deduction of all expenses of sale and other expenses recoverable by Lessor hereunder, or (y) the then "net fair market value" of such Equipment, as determined by an appraisal made by an independent appraiser selected by Lessor at Lessee's expense, taking into account a reasonable estimate of all expenses necessary to effect a sale and the other expenses recoverable by Lessor hereunder; and Lessee shall remain liable, subject to all provisions of this Lease, for the balance of the Stipulated Loss Value. No termination, repossession or other act by Lessor

after default shall relieve Lessee from any of its obligations hereunder. In addition to all other charges hereunder, Lessee shall pay to Lessor on demand all fees, costs and expenses incurred by Lessor as a result of such default, including without limitation, reasonable attorneys', appraisers' and brokers' fees and expenses and costs of removal, storage, transportation, insurance and disposition of the Equipment (except to the extent deducted from "net fair market value" or net proceeds of sale, as aforesaid). In the event that any court of competent jurisdiction determines that any provision of this Paragraph 23 is invalid or unenforceable in whole or in part, such determination shall not prohibit Lessor from establishing its damages sustained as a result of any breach of this Lease in any action or proceeding in which Lessor seeks to recover such damages. The remedies provided herein in favor of Lessor shall not be exclusive, but shall be cumulative and in addition to all other remedies existing at law or in equity, any one or more of which may be exercised simultaneously or successively.

24. NON-WAIVER. Lessor's failure at any time to require strict performance by Lessee of any provision hereof shall not waive or diminish Lessor's rights thereafter to demand strict performance thereof or of any other provision. None of the provisions of this Lease shall be held to have been waived by any act or knowledge of Lessor, but only by a written instrument executed by Lessor and delivered to Lessee. Waiver of any default shall not be a waiver of any other or subsequent default,

25. COMMUNICATIONS. Any notice or other communication required or desired to be given hereunder shall be given in writing and shall be deemed to have been duly given and received when sent by confirmed express mail, when delivered by hand or by confirmed Federal Express delivery or other reputable overnight courier or by facsimile on the date actually received by the addressee and, when deposited in the United States mail, registered or certified, postage prepaid, return receipt requested, on the third business day succeeding the day on which such notice was mailed, addressed to the respective addresses of the parties set forth at the beginning of this Lease or any other address designated by notice served in accordance herewith.

26. FINANCIAL AND OTHER INFORMATION. Lessee shall furnish to Lessor such financial and other information about the condition and affairs of Lessee and any Guarantor and about the Equipment as Lessor may from time to time reasonably request.

27. HOLDING OVER. Any use of the Equipment beyond the initial lease term or any renewal thereof shall be deemed to be an extension of the Lease term on a month-to-month basis terminable by Lessor on ten (10) days notice to Lessee and all obligations of Lessee herein, including payment of rent shall continue during such holding over.

28. SURVIVAL. Lessee's indemnities shall survive the expiration or other termination of this Lease.

29. SERVICE OF PROCESS; VENUE. IN ORDER TO INDUCE LESSOR TO EXECUTE THIS LEASE, LESSEE HEREBY AGREES THAT ALL ACTIONS OR PROCEEDINGS ARISING DIRECTLY OR INDIRECTLY FROM THIS LEASE SHALL BE LITIGATED ONLY IN COURTS (STATE OR FEDERAL) HAVING SITUS IN THE STATE OF ILLINOIS AND THE COUNTY OF COOK UNLESS LESSOR, IN ITS SOLE DISCRETION, WAIVES THIS PROVISION. LESSEE HEREBY EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR PROCEEDING COMMENCED BY LESSOR IN ANY STATE OR FEDERAL COURT LOCATED WITHIN THE STATE OF ILLINOIS, HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS AND COMPLAINT OR OTHER PROCESS OR PAPERS ISSUED THEREIN, AND AGREES THAT SERVICE MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO LESSEE AS PROVIDED FOR IN PARAGRAPH 25 HEREOF, AND THAT SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED ON THE THIRD BUSINESS DAY AFTER THE SAME SHALL HAVE BEEN MAILED IN THIS MANNER. LESSEE WAIVES ANY CLAIM THAT ANY ACTION INSTITUTED BY LESSOR HEREUNDER IS IN AN INCONVENIENT FORUM OR AN IMPROPER FORUM BASED ON LACK OF VENUE. TO THE EXTENT PERMITTED BY LAW, LESSEE HEREBY WAIVES TRIAL BY JURY AND ANY RIGHT OF SETOFF OR COUNTERCLAIM IN ANY ACTION BETWEEN LESSOR AND LESSEE.

30. SECURITY INTEREST. To the extent that any of the transactions evidenced by Schedules are secured transactions, Lessee hereby grants to Lessor a security interest in the Equipment described on such Schedules as security for all Lessee's obligations and liabilities under the Lease and Lessee authorizes Lessor to disburse the purchase price of such Equipment directly to the vendor(s) thereof.

31. NON-CANCELABLE LEASE; UNCONDITIONAL OBLIGATIONS. THIS LEASE CANNOT BE CANCELED OR TERMINATED EXCEPT BY LESSOR AS EXPRESSLY PROVIDED FOR HEREIN. LESSEE AGREES THAT LESSEE'S OBLIGATION TO PAY ALL RENT AND PAY AND PERFORM ALL OTHER OBLIGATIONS HEREUNDER SHALL BE ABSOLUTE, IRREVOCABLE, UNCONDITIONAL AND INDEPENDENT AND SHALL BE PAID OR PERFORMED WITHOUT ABATEMENT, DEDUCTION OR OFFSET OF ANY KIND WHATSOEVER.

32. LESSEE WAIVERS. To the extent permitted by applicable law, Lessee hereby waives any and all rights and remedies conferred upon a Lessee by Sections 2A-508 through 2A-522 of the Uniform Commercial Code, including, without limitations, the right to (i) cancel this Lease; (ii) repudiate this Lease; (iii) reject this Lease; (iv) revoke acceptance of the Equipment; (v) recover damages from Lessor for any breach of warranty or any other reason; (vi) claim a security interest in any rejected property in Lessee's possession; (vii) deduct all or any part of claimed damages resulting from Lessor's default; (viii) accept partial delivery of the Equipment; (ix) "cover" by making any purchase or lease of equipment in substitution of the Equipment; (x) recover any general, special, incidental or consequential damages from Lessor for any reason.

33. MISCELLANEOUS. Interest on any past due sums shall accrue at the rate of 1 1/2% per month, not to exceed the maximum rate permitted by law (the "overdue rate"). If any provision of this Lease or the application thereof is hereafter held invalid or unenforceable, the remainder of this Lease shall not be affected thereby, and to this end the provisions of this Lease are declared severable. Titles to Paragraphs shall not be considered in the interpretation of this Lease. This Lease (including the Schedules and any Riders hereto) sets forth the entire understanding

between the parties and may not be modified except in a writing signed by both parties. Except as may be expressly provided in any Schedule or Rider hereto, no options to purchase any of the Equipment or extend the term of this Lease with respect to any Equipment have been granted or agreed to by Lessor, and none shall be implied by this Lease. If there is more than one Lessee, the obligations of Lessee hereunder are joint and several. The necessary grammatical changes required to make the provisions hereof apply to corporations, partnerships and/or individuals, men or women, shall in all cases be assumed as though in each case fully expressed. Subject to the terms hereof, this Lease shall be binding upon and inure to the benefit of Lessor and Lessee and their respective personal representatives, successors and assigns. This Lease shall be governed in all respects by the laws of the State of Illinois. This Lease is submitted to Lessor for its acceptance or rejection and will not become effective until accepted by Lessor in writing at its office in Chicago, Illinois. The individuals executing this Lease on behalf of Lessee personally

warrant that they are doing so pursuant to due authorization and that by so executing this Lease, Lessee is being bound hereby.

Dated as of the day and year first above written.

LESSEE: Orion Imaging Systems, Inc.

Legal Name

	/s/ Joyce Mehrberg	/s/ Len Shaw
Accepted by Lessor at Chicago, Illinois	Signature (1)	Signature (2)
MARCAP CORPORATION	Joyce Mehrberg	Len Shaw
	Printed Name	Printed Name
By: /s/ Illegible	CFO	VP FINANCE
	Title	Title

Witness: /s/ David M. Sheehan
Signature

David M. Sheehan
Printed Name

Schedule No. 01

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:	VENDOR:
(1) Digirad 2020tc Moblie Gamma Camera (1) Digirad SPECTour Chair	Digirad 9350 Trade Place San Diego, CA 92126-6334
(1) Ford E250 Van VIN #1FTNS24L1YHB77928	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589 Youngstown, Ohio 44513
(1) Q4500, 115V, 60 Hz Treadmill	Quinton 3303 Monte Villa Parkway Bothell, WA 98021
Van Modifications	Ability Center 7151 Ronson Road, Suite B San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month, plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

By: /s/ Illegible

Vice President

LESSEE: Orion Imaging Systems, Inc.

Legal Name

/s/ Joyce Mehrberg

Signature (1)

Joyce Mehrberg

Printed Name

CFO

Title

/s/ Len Shaw

Signature (2)

Len Shaw

Printed Name

VP Finance

Title

WITNESS: /s/ David Sheehan

Signature

David Sheehan

Printed Name

Schedule No. 02

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:	VENDOR:
(1) Digirad 2020tc Moblie Gamma Camera (1) Digirad SPECTour Chair	Digirad 9350 Trade Place San Diego, CA 92126-6334
(1) Ford E250 Van VIN #1FNTS24L0YHB56424	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589 Youngstown, Ohio 44513
(1) Q4500, 115V, 60 Hz Treadmill	Quinton 3303 Monte Villa Parkway Bothell, WA 98021
Van Modifications	Ability Center 7151 Ronson Road, Suite B San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month,

plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

By: /s/ Illegible

Vice President

LESSEE: Orion Imaging Systems, Inc.

Legal Name

/s/ Joyce Mehrberg
Signature (1)

/s/ Len Shaw
Signature (2)

Joyce Mehrberg
Printed Name

Len Shaw
Printed Name

CFO
Title

VP Finance
Title

WITNESS: /s/ David Sheehan
Signature

David Sheehan
Printed Name

Schedule No. 03

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:	VENDOR:
(1) Digirad 2020tc Moblie Gamma Camera (1) Digirad SPECTour Chair	Digirad 9350 Trade Place San Diego, CA 92126-6334
(1) Ford E250 Van VIN #1FTNS24L8YHA89555	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589 Youngstown, Ohio 44513
(1) Q4500, 115V, 60 Hz Treadmill	Quinton 3303 Monte Villa Parkway Bothell, WA 98021
Van Modifications	Ability Center 7151 Ronson Road, Suite B San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month, plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg — Signature (1)
/s/ Len Shaw — Signature (2)

By: /s/ Illegible
Vice President

Joyce Mehrberg — Printed Name
Len Shaw — Printed Name

CFO — Title
VP Finance — Title

WITNESS: /s/ David Sheehan
Signature

David Sheehan
Printed Name

Schedule No. 04

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:	VENDOR:
(1) Digirad 2020tc Moblie Gamma Camera (1) Digirad SPECTour Chair	Digirad 9350 Trade Place San Diego, CA 92126-6334
(1) Ford E250 Van VIN #1FTNS24L6YHB78380	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589 Youngstown, Ohio 44513
(1) Q4500, 115V, 60 Hz Treadmill	Quinton 3303 Monte Villa Parkway Bothell, WA 98021
Van Modifications	Ability Center

7151 Ronson Road, Suite B
San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month,

plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg — Signature (1)
/s/ Len Shaw — Signature (2)

By: /s/ Illegible
Vice President

Joyce Mehrberg — Printed Name
Len Shaw — Printed Name

CFO — Title
VP Finance — Title

WITNESS: /s/ David Sheehan
Signature

David Sheehan
Printed Name

Schedule No. 05

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:	VENDOR:
(1) Digirad 2020tc Moblie Gamma Camera (1) Digirad SPECTour Chair	Digirad 9350 Trade Place San Diego, CA 92126-6334
(1) Ford E250 Van VIN #1FTNS34L6YHB60879	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589

Youngstown, Ohio 44513

(1) Q4500, 115V, 60 Hz Treadmill — Quinton
3303 Monte Villa Parkway
Bothell, WA 98021

Van Modifications — Ability Center
7151 Ronson Road, Suite B
San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month, plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ _____ covering _____

Security Deposit: _____

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

By: /s/ Illegible

Vice President

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg — Signature (1)
/s/ Len Shaw — Signature (2)

Joyce Mehrberg — Printed Name
Len Shaw — Printed Name

CFO — Title
VP Finance — Title

WITNESS: /s/ David Sheehan
Signature

David Sheehan
Printed Name

Schedule No. 06

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:

(1) Digirad 2020tc Moblie Gamma Camera
(1) Digirad SPECTour Chair

VENDOR:

Digirad
9350 Trade Place
San Diego, CA 92126-6334

(1) Ford E250 Van VIN #1FTNS24L11HA08806	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589 Youngstown, Ohio 44513
(1) Q4500, 115V, 60 Hz Treadmill	Quinton 3303 Monte Villa Parkway Bothell, WA 98021
Van Modifications	Ability Center 7151 Ronson Road, Suite B San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month, plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

By: /s/ Illegible
Vice President

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg
Signature (1)
Joyce Mehrberg
Printed Name
CFO
Title

/s/ Len Shaw
Signature (2)
Len Shaw
Printed Name
VP Finance
Title

WITNESS: /s/ David Sheehan
Signature

David Sheehan
Printed Name

Schedule No. 07

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT: VENDOR:

(1) Digirad 2020tc Moblie Gamma Camera (1) Digirad SPECTour Chair	Digirad 9350 Trade Place San Diego, CA 92126-6334
(1) Ford E250 Van VIN #1FTNS24L21HA08832	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589 Youngstown, Ohio 44513
(1) Q4500, 115V, 60 Hz Treadmill	Quinton 3303 Monte Villa Parkway Bothell, WA 98021
Van Modifications	Ability Center 7151 Ronson Road, Suite B San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month,

plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg — Signature (1)
/s/ Len Shaw — Signature (2)

By: /s/ Illegible
Vice President

Joyce Mehrberg — Printed Name
Len Shaw — Printed Name

CFO — Title
VP Finance — Title

WITNESS: /s/ David Sheehan
Signature

David Sheehan
Printed Name

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:	VENDOR:
(1) Digirad 2020tc Moblie Gamma Camera (1) Digirad SPECTour Chair	Digirad 9350 Trade Place San Diego, CA 92126-6334
(1) Ford E250 Van VIN #1FTNS24L6YHB49803	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589 Youngstown, Ohio 44513
(1) Q4500, 115V, 60 Hz Treadmill	Quinton 3303 Monte Villa Parkway Bothell, WA 98021
Van Modifications	Ability Center 7151 Ronson Road, Suite B San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month, plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

By: /s/ Illegible

Vice President

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg
Signature (1)

Joyce Mehrberg
Printed Name

CFO
Title

/s/ Len Shaw
Signature (2)

Len Shaw
Printed Name

VP Finance
Title

WITNESS: /s/ David Sheehan
Signature

David Sheehan
Printed Name

Schedule No. 09

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:	VENDOR:
(1) Digirad 2020tc Moblie Gamma Camera (1) Digirad SPECTour Chair	Digirad 9350 Trade Place San Diego, CA 92126-6334
(1) Ford E250 Van VIN #1FTNS24L2YHB57011	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589 Youngstown, Ohio 44513
(1) Q4500, 115V, 60 Hz Treadmill	Quinton 3303 Monte Villa Parkway Bothell, WA 98021
Van Modifications	Ability Center 7151 Ronson Road, Suite B San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month, plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg — Signature (1)
/s/ Len Shaw — Signature (2)

By: /s/ Illegible
Vice President

Joyce Mehrberg — Printed Name
CFO — Title

Len Shaw — Printed Name
VP Finance — Title

WITNESS: /s/ David Sheehan

Signature

David Sheehan
Printed Name

Schedule No. 10

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:	VENDOR:
(1) Digirad 2020tc Moblie Gamma Camera (1) Digirad SPECTour Chair	Digirad 9350 Trade Place San Diego, CA 92126-6334
(1) Ford E250 Van VIN #1FTNS24L1YHB60921	Kearny Mesa Ford 7303 Clairemont Mesa Blvd. San Diego, CA 92111
(1) Hot Lab Package (1) Ultimate Imaging Printer Package	Technology Imaging Services P.O. Box 3589 Youngstown, Ohio 44513
(1) Q4500, 115V, 60 Hz Treadmill	Quinton 3303 Monte Villa Parkway Bothell, WA 98021
Van Modifications	Ability Center 7151 Ronson Road, Suite B San Diego, CA 92111-l421

Original Location: 3223 Phoenixville Pike, Suite C, Malvern, PA 19355

Initial Term of Lease: Sixty-Three (63) Months

Rental: $1-3 = $0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month, plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg
Signature (1)

/s/ Len Shaw
Signature (2)

By: /s/ Illegible
Vice President

Joyce Mehrberg
Printed Name

Len Shaw
Printed Name

CFO — Title

VP Finance — Title

WITNESS: /s/ David Sheehan
Signature

David Sheehan
Printed Name

Schedule No. 11

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:

(1) Digirad 2020tc Moblie Gamma Camera
(1) Digirad SPECTour Chair
(1) Ford E250 Van
(1) Hot Lab Package

VENDOR:

Digirad
9350 Trade Place
San Diego, CA 92126-6334

Original Location: 4700 Bell Grove Rd., Bay 14, Baltimore, MD 21225

Initial Term of Lease: SIXTY-THREE (63) MONTHS

Rental: $1-3=$0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month, plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

By: /s/ Illegible
Vice President

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg — Signature (1)
/s/ Scott Huennekens — Signature (2)

Joyce Mehrberg — Printed Name
Scott Huennekens — Printed Name

CFO — Title
CEO — Title

WITNESS: /s/ Michael Robinson
Signature

Michael Robinson

Printed Name

Schedule No. 12

To and hereby made a part of Equipment Lease No. 00080103 as of OCTOBER 1, 2000, between MARCAP CORPORATION ("Lessor") and ORION IMAGING SYSTEMS, INC. ("Lessee").

EQUIPMENT:	VENDOR:
(1) Digirad 2020tc Moblie Gamma Camera	Digirad
(1) Digirad SPECTour Chair	9350 Trade Place
(1) Ford E250 Van	San Diego, CA 92126-6334
(1) Hot Lab Package	

Original Location: 4700 Bell Grove Rd., Bay 14, Baltimore, MD 21225

Initial Term of Lease: SIXTY-THREE (63) MONTHS

Rental: $1-3=$0.00; 4-6=$5,000.00, 7-9=$7,500.00, 10-63=$7,649.73 per month, plus any applicable taxes

Number of Rental Payments: Sixty (60)

Advance Rental: $ covering

Security Deposit:

Estimated Total Cost of Equipment: $325,000.00 plus any applicable taxes

Additional Provisions:

1. PURCHASE OPTION: Provided that Lessee is not then in default under the Lease and has then fully performed all of its obligations hereunder, Lessee shall have the option at the expiration of the term to purchase all of the Equipment leased under this Schedule on an "as is, where is" basis, without warranties, express or implicit by Lessor, for a price (plus applicable taxes) of one dollar ($1.00).

2. RENT: All rentals provided for above are based upon like-term (60 month) Treasury Notes of 6.15% (the "base rate") as published in the Wall Street Journal. Any increase in like-term (60 month) treasury notes prior to commencement of the lease will increase the monthly payments correspondingly. At lease commencement, the payments will be fixed for the term of the lease.

Dated as of the day and year first above written.
Accepted by Lessor in Chicago Illinois

MARCAP CORPORATION

By: /s/ Illegible
Vice President

LESSEE: Orion Imaging Systems, Inc.
Legal Name

/s/ Joyce Mehrberg
Signature (1)
Joyce Mehrberg
Printed Name
CFO
Title

/s/ Scott Huennekens
Signature (2)
Scott Huennekens
Printed Name
CEO
Title

WITNESS: /s/ Michael Robinson
Signature

Michael Robinson
Printed Name

MARCAP

VIA FAX

May 3, 2001

Ms. Joyce Mehrberg
Digirad Imaging Solutions, Inc.
9350 Trade Place
San Diego, CA 92126

RE: Schedule No.(s) 11 & 12 to Equipment Lease No. 00080103 as of October 1, 2000 (the "Agreement")

Dear Ms. Mehrberg:

This letter will serve to amend the above referenced Schedules as follows:

SCHEDULE 11:

The Equipment Cost was amended to reflect a total cost $314,815.01 which was previously documented at $325,000.00. The Rental amount has been amended to months 1-3 (03/29/01 through 05/29/01) @ $0.00, months 4-6 @ 5,000.00 (commencing 6/29/01), months 7-9 @ 7,500.00 (commencing 09/29/01), and months 10-63 @ $7380.77 (commencing 12/29/01).

SCHEDULE 12:

The Equipment Cost was amended to reflect a total cost of $314,417.57, which was previously documented at $325,000.00. The Rental amount has been amended to months 1-3 (04/25/01 through 06/25/01) @ $0.00, months 4-6 @ $5,000.00 (commencing 7/25/01), months 7-9 @ 7,500.00 (commencing 10/25/01), and months 10-63 @ $7370.27 (commencing 1/25/02).

All other terms and conditions of the Agreement will remain in full force.

Sincerely,

/s/ Laura Franzway

Laura Franzwa
Contract Administrator

EXHIBIT 10.11

1. BASIC LEASE TERMS.

1.1 DATE OF LEASE: January 27 1998

1.2 TENANT: Digirad Corporation, a Delaware corporation

Trade Name:

Address (Leased Premises): 9350 Trade Place, Suite A
San Diego, CA 92126

Address (For Notices): 7408 Trade Street, San Diego, CA 92121

1.3 LANDLORD: Judd/King No. 1, a California general partnership

Address (For Notices): P.O. Box 501448, San Diego, CA 92150-1448 or to such other places as Landlord may from time to time designate by notice to Tenant.

1.4 TENANT'S USE OF PREMISES: office, research and development, production, manufacturing, distribution, and any other use permitted under all applicable laws in the City of San Diego, State of California.

1.5 PREMISES AREA: 13,436
Rentable Square Feet.

1.6 PROJECT AREA: 41,478
Square Feet.

1.7 PREMISES PERCENT OF PROJECT: 32.4%

1.8 TERM OF LEASE: Commencement Date: 2-16-98
Expiration Date: 3-31-02

1.9 BASE MONTHLY RENT: $ 10,748.80

Due Date of First Payment: upon Lease execution

Default and Landlord Advance Interest Rate: ten (10) percent per annum.

1.10 RENT ADJUSTMENT (INITIAL ONE):

(2) Step Increase. If this provision is initialed, the step adjustment provisions of Section 4.2.(2) apply as follows:

_____("Initial)

Effective Date of Increase	New Base Monthly Rent
--- 4-1 , 1999	$11,071.26
4-1 , 2000	$11,403.40
4-1 , 2001	$11,745.50
, 19 $, 19 $	

(3) Prepaid Rent: $ -0-

(4) Total Security Deposit $ 11,745.50 including a $ -0- non refundable cleaning fee

(5) Broker(s): CB Commercial Real Estate Group, Inc. represented Landlord and The Irving Hughes Group, Inc. represented Tenant.

(6) Brokerage Commission Payable By: Landlord

(7) Guarantors: N/A

---

(8) Additional Sections:

Additional sections of this Lease numbered 30 through 40 are attached hereto and made a part hereof. If none, so state in the following space

(9) Additional Exhibits:

Additional exhibits lettered D through _____ are attached hereto and made a part hereof. If none, so state in the following space NONE

Section 1 represents a summary of basic terms of this Lease. In the event of any inconsistency between the terms contained in Section 1 and any specific clause of this Lease, the terms of the more specific clause shall prevail.

2. PREMISES. Landlord hereby leases to Tenant and Tenant leases from Landlord, these certain promises described in Section 1 and in Exhibit A attached hereto (the "Premises"), located in the project described on Exhibit B (the "Project"), upon all of the conditions set forth herein. Landlord reserves the right to modify Tenant's percentage of the Project as set forth in Section 1.7 if the size of the project is increased through the development of additional property. By entry on the Premises, Tenant acknowledges that it has examined the Premises and accepts the Premises in their present condition as outlined on Exhibit A, subject to any additional work Landlord has agreed to do.

3. TERM. Subject to the provisions hereof, including without limitation Sections 16, 17 and 20, the term of this Lease (the ("Term") shall be for the period set forth in Section 1.8, commencing on the date set forth in Section 1.8 (the "Commencement Date"). If Landlord, for any reason, cannot deliver possession of the Premises to Tenant upon the Commencement Date, this Lease shall not be void or voidable, nor shall Landlord be liable to Tenant for any loss or damage resulting from such delay; rather, there shall be a rent abatement covering the period between the Commencement Date and the date upon which Landlord delivers possession to Tenant, and all other terms and conditions of this Lease shall remain in full force and effect; provided, however, that if Landlord cannot deliver possession of the Premises to Tenant within 5 days of the Commencement Date, this Lease shall be void and neither party shall have any liability to the other except that all prepaid rent (including, without limitation, the Termination Fee) and security deposit shall be immediately refunded to Tenant. If a delay in possession is caused by Tenant's failure to perform any obligation in accordance with this Lease, the Term shall commence on the Commencement Date and there shall be no abatement of rent.

4. RENT.

4.1 BASE RENT. Tenant shall pay Landlord the Base Monthly Rent set forth in Section 1.9 monthly, in advance, on the first day of each and every calendar month ("Base Monthly Rent"); provided, (a) the first full month's rent shall be due and payable upon execution of this Lease, and (b) any appropriate partial month proration for the first month shall be due and payable upon execution of this Lease. Notwithstanding anything to the contrary contained in this Lease, the Base Monthly Rent in February 1998 shall be $1247.55 and the Base Monthly Rent in March 1998 shall be $2,687.20

4.2 RENT ADJUSTMENT.

(2) STEP INCREASE. If Section 1.10(2) is initiated, the Base Monthly Rent shall be increased to the amounts and at times set forth in Section 1.10(2).

4.3 EXPENSES. The purpose of the Section 4.3 is to ensure that Tenant bears a share of all Expenses related to the use, operation, maintenance, ownership, repair and insurance of the Project, except depreciation of the Project, loan repayment (except as in

Section 4.3(l)(g) below), and real estate commissions. Accordingly Tenant shall pay to Landlord Tenant's Share (as defined below) of Expenses related to the Project

(1) EXPENSES DEFINED. The term "Expenses" shall mean all costs and expenses of the use, operation, maintenance, ownership, repair and insurance of the Project, including, without limitation, the following costs:

(a) All supplies, materials, labor and equipment, used in or related to the Project; excluding tenant improvements installed for any other tenant in the project.

(b) All utilities, including without limitation, water, electricity, gas, heating, light, sewer, waste disposal, security, air conditioning and ventilating costs and all charges relating to the Project;

(c) All maintenance, janitorial and service agreements related to the Project; Landlord shall keep in force the service contract for the HVAC and ventilation systems to the Premises.

(d) All reasonable legal expenses and accounting costs (excluding legal costs of negotiating, terminating or extending teases, or legal costs incurred in proceedings against any tenant other than Tenant or arising from Landlord's breach of this or any other lease in the Project.

(e) All insurance premiums and costs, including but not limited to the premiums and costs of fire, casualty and liability, rental abatement, related to the Project, and, subject to amortization of capital repairs in accordance with (g) below, the cost of damage to the common areas of the Project caused by an uninsured loss or casualty;

(f) All maintenance and repair costs relating to the areas within or around the Project, including without limitations, sidewalks, landscaping, service areas, driveways, parking areas, walkways, building exteriors (including painting), signs and directories, including, for example, costs of resurfacing and restriping parking areas, repairing and replacing roofs and walls, and including any assessments charged or levied by a Tenant's and/or Owner's Association ,if any;

(g) Amortization (principal and interest) of the cost of capital improvements made to the Project over their useful life as determined in accordance with generally accepted accounting principals which may be required by any government authority or which will improve the operating efficiency of the Project (provided, however, that the amount of such amortization charged to all tenants for improvements not mandated by government authority shall not exceed, in any calendar year, the total amount of costs reasonably determined by Landlord in its sole discretion to have been saved by the expenditures, either through a reduction of such costs or a minimization of increases of such costs which would have otherwise occurred). SEE ADDENDUM A-1

(h) All other costs of managing, maintaining, repairing, operating and insuring the Project, including, for example, clerical, supervisory and janitorial staff costs. There shall be a ceiling of three (3) percent of the Base Monthly Rent as a Landlord charged management fee.

(i) "Real Property Taxes", which include all taxes, assessments (general and special) and other impositions or charges which may be taxed, charged, levied, assessed or imposed upon or against all or any portion of or in relation to the Project, any leasehold estate in the Premises or measured by rent from the Premises, including any increase caused by the transfer, sale or encumbrance of the Project or any portion thereof. "Real Property Taxes" also includes any form of assessment, levy, penalty, charge or tax (other than estate, inheritance, net income or franchise taxes) imposed by any authority having a

direct or indirect power to tax or charge, including without limitation any city, county, state, federal or any improvement or other district, whether such tax is (1) determined by the area of the Project or the rent or other sums payable under this Lease; (2) upon or with respect to any legal or equitable interest of Landlord in the Project or any part thereof, (3) upon this transaction or any document to which Tenant is a party creating a transfer in any interest in the Project;

(4) in lieu of or as a direct substitute in whole or in part of or in addition to any real property taxes on the Project; (5) based on any parking spaces or parking facilities provided in the Project; or (6) in consideration for services, such as police protection, fire protection, street, sidewalk, roadway maintenance, refuse removal or other services that may be provided by any governmental or quasi-governmental agency from time-to time which were formerly provided without charge or with less charge to property owners or occupants. SEE ADDENDUM A-2

(2) ANNUAL ESTIMATE OF EXPENSES; TENANT'S SHARE. On the Commencement Date, and prior to commencement of each calendar year thereafter, Landlord shall prepare and deliver to Tenant its reasonable estimate of Expenses for the Project for the coming year. Tenant's Share of all actual Expenses shall be determined by multiplying the total of all actual Expenses by the Premises Percent of Project set forth in Section 1.7 (herein "Tenant's Share").

(3) MONTHLY PAYING OF EXPENSES; ANNUAL RECAP. Tenant shall pay to Landlord, monthly, in advance, as additional rent, one-twelfth of the product achieved by multiplying the then current estimate of annual Expenses by the Premises Percent of Project set forth in Section 1.7. As soon as practical following the end of each calendar year, Landlord shall prepare an accounting of actual Expenses incurred during the prior calendar year. If the amount of additional rent paid by Tenant as Tenant's Share during the preceding calendar year was less than the actual amount of Tenant's Share of Expenses, Landlord shall so notify Tenant and Tenant shall pay to Landlord the difference between said two amounts within thirty (30) days of receipt of such notice. Such amount shall be deemed to have accrued during the prior calendar year and shall be due and payable from Tenant even though the Term of this Lease may have terminated prior to Tenant's receipt of the notice. If the amount of additional rent paid by Tenant as Tenant's Share during the preceding calendar year was greater than the actual amount of Tenant's Share of Expenses, then Landlord shall promptly so notify Tenant and such overpayment shall be credited by Landlord or, at the end of the Lease Term, shall be immediately refunded to Tenant to the monthly payment of Tenant's Share of Expenses next due from Tenant to Landlord. In no event shall such credit be used to offset or in any way reduce the Base Monthly Rent. During February 1998 and March 1, 1998 Tenant shall pay twenty five (25) percent of the Expenses due for each of these months.

4.4 RENT WITHOUT OFFSET. All rent shall be paid by Tenant to Landlord monthly in advance on the first day of every calendar month, at the address shown in Section 1.3, or at such other place as Landlord may designate in writing from time-to-time. All rent shall be paid without prior demand or notice and without any deduction or offset whatsoever. All rent shall be paid in lawful currency of the United States of America. All rent due for any partial month shall be prorated, when appropriate, at the rate of one-thirtieth (1/30) of the total monthly rent per day.

4.5 LATE CHARGE. Time is of the essence to the performance of this Lease. Tenant acknowledges that late payment by Tenant to Landlord of any base monthly rent or other sums due under this Lease will cause Landlord to incur costs and damages, including but not limited to processing and accounting charges and late charges that may be imposed on Landlord by the terms of any encumbrance secured by the Premises, as well as the loss of the use and time value of money. Landlord and Tenant specifically agree and acknowledge that the exact amount of such costs and damages would be difficult or impossible to prove. Provided that Landlord and Tenant initial here:

\s\ illegible LANDLORD

TENANT

Tenant agrees that, if any rent or other sum due from Tenant is not received when due, Tenant shall pay to Landlord an additional sum equal to TEN (10) PERCENT OF THE UNPAID BALANCE DUE. Landlord and Tenant hereby agree that they have attempted to estimate the amount of costs and damages which would result from delay in payment, and that the agreed late charge represents a fair and reasonable estimate of the costs and damages that Landlord will incur by reason of any such late payment in light of the anticipated or actual harm which would be caused by such delays, the difficulties of proof of loss, and the inconvenience or nonfeasibility of Landlord otherwise obtaining an adequate remedy. Additionally, all such delinquent rent or other sums, plus this late charge, shall bear interest at the rate per annum set

forth in Section 1.9 above. Any payments of any kind returned insufficient funds will be subject to an additional handling charge of $25.00.

6. DEPOSIT. Upon execution of this Lease, Tenant shall deposit with Landlord the amount of the security deposit set forth in Section 1.10(4) (herein the "Security Deposit"), in part as security for the performance by Tenant of the provisions of this Lease. In the event of default by Tenant, Landlord shall have the right to use the Security Deposit or any portion of it to cure the default or to compensate Landlord for all damage sustained by Landlord resulting from Tenant's default. Upon demand, Tenant shall immediately pay to Landlord a sum equal to the portion of the Security Deposit so expended or applied so as to maintain the Security Deposit in the amount initially deposited with Landlord. If Tenant is not in default at the expiration or termination of this Lease, Landlord shall return the entire Security Deposit to Tenant. Landlord's obligations with respect to the Security Deposit are not those of a trustee, such that, for example, Landlord may commingle the Security Deposit with Landlord's general funds. Landlord shall not be required to pay Tenant interest with respect to the Security Deposit. Landlord shall be entitled to immediately endorse and cash any check tendered as the Security Deposit; however, such endorsement and cashing shall not constitute Landlord's acceptance of this Lease. In the event Landlord does not accept this Lease, Landlord shall immediately return the Security Deposit.

7. CONDITION AND USE OF PREMISES AND PROJECT FACILITIES. Tenant shall use the Premises solely for the purpose set forth in Section 1.4 and for no other purpose without obtaining the prior written consent of Landlord. Tenant has decided to lease the Premises based upon Tenant's independent investigations, inquiry, and business judgment. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises or the Project or with respect to the uses to which the Premises may be put or the suitability of the Premises or the Project for the conduct of Tenant's business, nor has Landlord agreed to undertake any modification, alteration or improvement to the Premises or to the Project, except as provided in writing in this Lease. Tenant has inspected the Premises and accepts the same "AS IS." Tenant acknowledges that Landlord may, from time-to-time, in its sole discretion, make such modifications, alterations, deletion or improvements to the Project as Landlord may deem necessary or desirable, without compensation or notice to Tenant, provided that such modifications, alterations, deletions or improvements do not interfere with access to the Premises or Tenant's permitted use of the Premises and does not otherwise impair Tenant's rights hereunder. Tenant shall promptly comply with all laws, ordinances, orders and regulations affecting the Premises and the Project, including without limitation any rules and regulations that may be attached to this Lease and to any reasonable none-discriminatory modifications to these rules and regulations as Landlord may adopt from time-to-time. Should Tenant do or permit anything to be done in or about the Premises or bring or keep anything in the Premises that in any way increases the premiums paid by Landlord on its insurance related to the Project or which will in any way increase the premiums for fire or casualty insurance carried by other tenants in the Project. Tenant shall pay for said increase in premium. Tenant will not perform any act or carry on any practice that may injure the Premises or the Project, be a nuisance or menace to other tenants in the Project, or in any way interfere with the quiet enjoyment of such other tenants. Tenant shall not use the Premises for sleeping, washing clothes, cooking or the preparation, manufacture or mixing of anything that might emit any objectionable odor, noises, vibrations or lights onto such other tenants. If sound insulation is required to muffle noise produced by Tenant on the Premises, Tenant at its own cost shall provide all necessary insulation. Tenant shall not overload any existing parking or service to the Premises. Pets and/or animals of any type shall not be kept on the Premises.

8. SIGNAGE; ALARMS. All signing shaft comply with rules and regulations set forth by Landlord as may be modified from time-to-time. Current rules and regulations relating to signs are described on Exhibit C attached hereto. Subject to paragraph 38 hereof, Tenant shall place no window covering (e.g., shades, blinds, curtains, drapes, screens or tinting material), stickers, signs, lettering, banners or advertising or display material on or near exterior windows or doors if such materials are visible from the exterior of the Premises, without Landlord's prior written consent. Similarly, Tenant may not install any alarm boxes, foil protection tape or other security equipment on the Premises without Landlord's prior written consent. Any material violating this provision may be removed by Landlord without compensation to Tenant.

9. PERSONAL PROPERTY TAXES. Tenant shall pay before delinquency all taxes, assessments, license fees and public charges levied, assessed or imposed upon its business operations as welt as upon all trade fixtures, leasehold improvements, merchandise and other personal property in or about the Premises.

10. PARKING. Landlord hereby grants to Tenant and Tenant's customers, suppliers, employees and invitees, a non-exclusive privilege to use the parking areas in the Project for the use of motor vehicles during the term of this Lease. Landlord reserves the right at any time to grant similar non-exclusive privileges to other tenants, to promulgate rules and regulations relating to the use of such parking areas, including reasonable restrictions on parking by tenants and employees, to designate specific spaces for the use of any tenant, to make changes in the parking layout from time-to-time, and to establish reasonable time limits on parking. Overnight parking is prohibited and any vehicle violating this or any other vehicle regulation adopted by Landlord is subject to removal at the owner's expense. Notwithstanding anything to the contrary contained in this Lease, Tenant may designate up to six (6) parking spaces in the front row of the parking closest to the entrance at Suite A as visitor and/or reserved.

11. UTILITIES. Tenant shall pay for all water, gas, heat, light, power, electricity, telephone or other service metered, chargeable or provided to the Premises. If Landlord reasonably determines that Tenant is using excessive amounts of water, Landlord may install a separate water meter for the Premises which cost shall be paid for by Tenant.

12. MAINTENANCE. Landlord shall maintain, in good condition, the structural parts of the Premises, which shall include only the foundations, bearing and exterior walls (excluding glass) subflooring and roof (excluding skylights), the unexposed electrical, plumbing and sewerage systems, including without limitation, those portions of the systems lying outside the Premises, exterior doors (excluding glass) window frames, gutters and downspouts on the Building and the heating, ventilating and air conditioning system servicing the Premises; provided, however, the cost of all such maintenance shall be considered "Expenses" for purposes of Section 4.3. Except as provided above, Tenant shall repair and maintain the Premises in good condition, including without limitation, maintaining and repairing walls, floors, ceilings, interior doors, exterior and interior windows and fixtures as well as damage caused by Tenant, its agents, employees or invitees. Upon expiration or termination of this Lease, Tenant shall surrender the Premises and all tenant improvements and alterations to Landlord in the same condition as they existed on the Commencement Date, except for (a) reasonable wear and tear, and (b) damage caused by fire or other casualty.

13. ALTERATIONS. Tenant shall not make any alterations to the Premises, or tox the Project, including any changes to the existing landscaping, without Landlord's prior written consent which shall not be unreasonably withheld, conditioned or delayed. If Landlord gives its consent to such alterations, Landlord may post notices of nonresponsibility in accordance with the laws of the slate in which the Premises are located. Any alterations made shall remain on and be surrendered with the Premises upon expiration or termination of this Lease, except that Landlord may, within thirty (30) days before or thirty (30) days after expiration of the Term, elect to require Tenant to remove any alterations which Tenant may have made to the Premises. If Landlord so elects, Tenant shall, at its own cost, restore the Premises to the condition designated by Landlord in its election, before the last day of the term or within thirty (30) days alter notice of Landlord's election is given, whichever is later. Tenant shall cause no damage to the Premises in removing alterations.

Should Landlord consent in writing to Tenant's alteration of the Premises, Tenant shall contract with a contractor approved by Landlord for the construction of such alterations, which approval

shall not be unreasonably withheld, shall secure all appropriate governmental approvals and permits, and shall complete such alterations with due diligence in compliance with plans and specifications approved by Landlord. All such construction shall be performed in a manner which will not interfere with the quiet enjoyment of other tenants of the Project. Tenant shall pay all costs for such construction and shall keep the Premises and the Project free and clear of all liens which may result from construction by Tenant.

14. RELEASE AND INDEMNITY. As material consideration to Landlord, and despite any active or passive negligence on their part or parts, Tenant agrees that Landlord and its employees, officers, partners and directors shall not be liable for any injury or damage to the person, property, or business of Tenant, its employees, invitees, permittees, customers, or any other person in or about the Premises from any cause, and Tenant waives all claims against such parties for damage to persons or property arising for any reason, except only for damage or injury resulting directly from Landlord's gross negligence, willful misconduct or breach of its express obligations under this Lease which Landlord has not cured within a reasonable time after receipt of written notice of such breach from Tenant. In no event shall Landlord have any liability for any act or omission of Tenant, its employees, invitees, permittees or customers, or of any other tenant of the Project, or its employees, invitees, permittees or customers with the exception of such liability resulting from Landlord's (or its employees, invitees, other than

Tenant, agents or contractors), gross negligence or willful misconduct. Tenant shall indemnify and hold harmless Landlord (and its employees, officers, partners, and directors), the Premises and the Project, from all damages, injuries, claims, costs and expenses related to acts, events or omissions occurring in, on or about the Premises, or arising out of or in any way related to Tenant's use or occupancy of the Premises, Tenant's breach of any term of this Lease, or any work, activity or thing done, permitted or suffered by Tenant in, on or about the Premises or the Project.

15. INSURANCE AND WAIVER OF SUBROGATION.

15.1 LIABILITY INSURANCE. Tenant at its cost, shall maintain public liability insurance with a single combined liability limit of $1,000,000.00, insuring against the hazards of Premises and operations, independent contractors, contractual liability (covering the Indemnity Clause contained herein), products and completed operations arising out of or in connection with Tenant's use, occupancy or maintenance of the Premises. Such insurance policy shall (1) name Landlord and his managing agent as an additional insured, (2) contain a cross liability provision, and (3) contain an endorsement that the insurance provided the Landlord hereunder shall be primary with respect to the Premises and noncontributing with any other insurance available to the Landlord.

15.2 PROPERTY INSURANCE. At its cost, Tenant shall maintain a policy of standard fire and extended coverage insurance with vandalism and malicious mischief endorsements and "all risk" coverage on all Tenant's personal property, improvements, fixtures and alterations in or about the Premises, to the extent of a least ninety percent (90%) of their full replacement value. A stipulated value or agreed amount endorsement deleting the coinsurance clause shall be produced with said insurance. The proceeds from any such policy shall be used by Tenant for the replacement of personal property and the restoration of Tenant's improvements, fixtures or alterations. Said insurance shall provide for payment of loss to, and shall name as additional insureds, the Landlord and the holders of mortgages or deeds of trust on the building(s). If such insurance has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence and the Lessee shall be liable for such deductible. Landlord shall maintain a policy of standard fire and extended coverage insurance with vandalism and malicious mischief endorsements and "all risk" coverage on the Project to the extent of at least ninety percent (90%) of the full replacement value.

15.3 BUSINESS INTERRUPTION AND INSURANCE. Tenant shall, at its cost, obtain business interruption insurance of such type and amount sufficient to pay all rent and other sums due hereunder for a period of at least of at least twelve (12) months in the event of any cessation or reduction of Tenant's business for any reason, including without limitation, damage or destruction. In no event shall Landlord be liable to Tenant for any loss of

income from the operation of Tenant's business for any reason whatsoever, including without limitation, from an inability to occupy the Premises.

15.4 INSURANCE POLICIES; Subrogation. All insurance required to be provided by Tenant or Landlord under this Lease:

(a) shall be issued in a form reasonably satisfactory to Landlord and shall be issued by insurance companies which are authorized to do business in the state in which the Premises are located and which are satisfactory and acceptable to Landlord, provided that such companies shall each enjoy a financial rating of at least an A+X status as rated in the most recent edition of Best's Insurance Reports;

(b) shall contain an endorsement requiring at least thirty (30) days prior written notice of cancellation to Landlord and Landlord's lender, before cancellation or change in coverage, scope or amount of any policy;

(c) shall release the other party to this Lease from any claims for damage to any person or to the Premises and the Project, and to Tenant's fixtures, personal property, improvements and alterations in or on the Premises or the Project caused by or resulting from risks insured against under any insurance policy carried by the party insured hereunder and in force at the time of such damage.

Tenant shall deliver a certificate or copy of each insurance policy together with evidence of payment of all current premiums to Landlord within thirty (30) days of execution of

this Lease. Tenant's failure to provide evidence of such coverage to Landlord may, in Landlord's sole discretion, constitute a default under this Lease. Tenant and Landlord hereby waive their entire right of subrogation against each other for loss damage arising out of or incident to the perils insured against pursuant to this Section 15. All insurance policies shall provide for waiver of subrogation releasing the non-insured party from liability as provided in this Section 15.

16. DESTRUCTION. If, during the Term, the Premises or Project are more than ten percent (10%) destroyed from any cause, or rendered inaccessible or unusable from any cause, Landlord may, in its sole discretion and without compensation or liability to Tenant, terminate this Lease by delivery of notice to Tenant within thirty (30) days of such event. If, in Landlord's estimation, the Premises cannot be restored within ninety (90) days following such destruction, then Landlord shall immediately notify Tenant and Tenant may terminate this Lease by delivery of notice to Landlord within thirty (30) days of receipt of Landlord's notice otherwise this Lease shall remain in full force and effect. If Landlord does not terminate this Lease and if in Landlord's estimation the Premises can be restored within ninety (90) days, then Landlord shall commence to restore the Premises in compliance with then existing laws and shall complete such restoration with due diligence. In such event this Lease shall remain in full force and effect except that the then current Base Monthly Rent shall be reduced in the same ratio as the total number of square feet in the Premises damaged or destroyed bears to the total number of square feet in the Premises.

17. CONDEMNATION.

17.1 DEFINITIONS. The following definitions shall apply: (1) "Condemnation" means (a) the exercise of any governmental power of eminent domain, whether by legal proceedings or otherwise by condemner, and (b) the voluntary sale or transfer by Landlord to any condemnor either under threat of condemnation or while legal proceedings for condemnation are proceeding; (2) "Date of Taking" means the date the condemnor has the right to possession of the property being condemned; (3) "Award" means all compensation, sums or anything of value awarded, paid or received in connection with a total or partial Condemnation; and (4) "Condemnor" means any public or quasi-public authority, or private corporation or individual, having a power of Condemnation.

17.2 OBLIGATIONS TO BE GOVERNED BY LEASE. If, during the Term of this Lease, there is any Condemnation of all or any part of the Premises or the Project, the rights and obligations of the parties shall be determined pursuant to this Lease.

17.3 TOTAL OR PARTIAL TAKING. If the Premises are totally taken by Condemnation, this Lease shall terminate on the Date of Taking. If only a portion of the Premises is Condemned, this Lease shall continue in effect, except that Tenant may elect to terminate this Lease if the remaining portion of the Premises is rendered unsuitable for Tenant's continued use of the Premises. If Tenant elects to terminate this Lease, Tenant must exercise its right to terminate by giving notice to Landlord within thirty (30) days alter the nature and extent of the Condemnation have been finally determined. If Tenant elects to terminate this Lease, Tenant shall also notify Landlord of the date of termination, which date shall not be earlier than thirty (30) days nor later than ninety (90) days after tenant has notified Landlord of its election to terminate; except that this Lease shall terminate on the Date of Taking if the Date of Taking falls on a date before the date of termination as designated by Tenant. If any portion of the Premises is taken by Condemnation and this Lease remains in full force and effect, then from and after the Date of Taking the then current Base Monthly Rent shall be reduced in the same ratio as the total number of square feet in the Premises taken bears to the total number of square feet in the Premises immediately before the Date of Taking.

18. ASSIGNMENT OR SUBLEASE. Tenant shall not assign or encumber its interest in this Lease or the Premises, nor sublease all or any part of the Premises, nor allow any other person or entity (except Tenant's authorized representatives, employees, invitees, or guests) to occupy or use all or any part of tile Premises, without first obtaining Landlord's written consent which Landlord shall not unreasonably withhold, condition or delay. Any such assignment or sublease shall not relieve Tenant of any obligation hereunder and Tenant shall remain liable for the performance of each term hereof. Any assignment, encumbrance or sublease without Landlord's written consent shall be voidable and, at Landlord's election, shall constitute a default. If Tenant is a partnership, withdrawal or change, voluntary, involuntary or by operation of law, of any partner, or the dissolution of the partnership, shall be deemed a voluntary assignment. If Tenant consists of more than one person, a purported assignment, voluntary or involuntary or by operation of law from one person to

the other shall be deemed a voluntary assignment. All rent received by Tenant from its subtenants in excess of the rent payable by Tenant to Landlord under this Lease shall be paid to Landlord, or any sums to be paid by an assignee to Tenant in consideration of the assignment of this Lease shall be paid to Landlord. If Tenant requests Landlord to consent to a proposed assignment or subletting, Tenant shall pay to Landlord, whether or not consent is ultimately given, $100 or Landlord's reasonable attorney's fees incurred in connection with such request, whichever is greater. SEE ADDENDUM A-3

No interest of Tenant in this Lease shall be assignable by involuntary assignment through operation of law (including without limitation the transfer of this Lease by testacy or intestacy). Each of the following acts shall be considered an involuntary assignment: (a) If Tenant is or becomes bankrupt or insolvent, makes an assignment for the benefit of creditors, or institutes proceedings under the Bankruptcy Act in which Tenant is bankrupt; or if Tenant is a partnership or consists of more than one person or entity, if any partner of the partnership or other person or entity is or becomes bankrupt or insolvent, or makes an assignment for the benefit of creditors: or (b) if a writ of attachment or execution is levied on this Lease; or (c) if in any proceeding or action to which Tenant is a party, a receiver is appointed with authority to take possession of the Premises. An involuntary assignment shall constitute a default by Tenant and Landlord shall have the right to elect to terminate this Lease, in which case this Lease shall not be treated as an asset of Tenant.

19. DEFAULT. In addition to the acts, events, and omissions elsewhere specified in this Lease as such, the occurrence of any of the following shall constitute a default by Tenant: (a) A failure to pay rent or other charge when due; (b) Abandonment of the Premises (failure to occupy and operate the Premises for ten consecutive days shall be deemed an abandonment and vacation); and (c) Failure to perform any other term or provision of this Lease, within a reasonable time for performance thereof.

20. LANDLORD'S REMEDIES.

20.1 REMEDIES. In the event of default, Landlord shall have the remedies set forth in this Section 20. These remedies are not exclusive; they are cumulative and in addition to any remedies now or later allowed by law. Landlord may terminate Tenant's right to possession of the Premises at any time. No act by Landlord other than giving notice to Tenant shall terminate this Lease. Acts of maintenance, efforts to release the Premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of this Lease. Upon termination of this Lease, Landlord shall have the right to recover from Tenant: (1) The worth of the unpaid rent that had been earned at the time of termination of this lease; (2) The worth of the amount of the unpaid rent that would have been earned after the date of termination of this Lease; and (3) Any other amount, including court, attorney and collection fees and costs, necessary to compensate Landlord for Tenant's default. "The worth" as used in item 20(1) is to be computed by allowing interest at the rate per annum set forth in Section 1.9 above. "The worth" as used for item 20(2) is to be computed by discounting the amount at the discount rate of the Federal Reserve Bank or San Francisco at the time of termination of Tenant's right of possession.

20.2 PERFORMANCE BY LANDLORD OF TENANT'S OBLIGATIONS. All covenants and agreements to be performed by Tenant under any of the terms or this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any abatement of rent. If Tenant shall fail to pay any sum or money owed to any party, other than Landlord, for which it is liable hereunder, or it Tenant shall fail to perform any other act on its part to be performed hereunder or otherwise violate any term or provision of this Lease including, without limitation, its obligations pursuant to Sections 7, 12 and 13, Landlord may, without waiving any default or releasing Tenant from any obligation hereunder, but shall not be obligated to, make any such payment or perform any such other act to be made or performed by Tenant. All sums so paid by Landlord and all necessary incidental costs, together with interest thereon from the date of such payment by Landlord at the rate per annum set forth in Section 1.9 above, shall be payable to Landlord on demand. Tenant covenants to pay any such sums.

21. ENTRY ON PREMISES. Landlord and its authorized representatives shall have the right to enter the Premises at all reasonable times for any of the following purposes: (a) To determine whether the Premises are in good condition and whether Tenant is complying with its obligations under this Lease; (b) To do any necessary maintenance and to make any restoration to the Premises or the Project that Landlord has the right or obligation to perform; (c) To post "for sale" signs at any time during the Term, to post "for rent" or "for lease" signs during the last ninety (90) days of the term, or during any period while Tenant is in default; (d) To show the Premises to prospective brokers, agents, buyers,

tenants or persons interested in an exchange, at any time during the Term; or (e) To repair, maintain or improve the Project and to erect scaffolding and protective barricades around and about the Premises (but not so as to prevent entry to the Premises), and (f) To do any other act or thing necessary for the safety or preservation of the Premises or the Project. Landlord shall not be liable in any manner for any inconvenience, disturbance, loss of business, nuisance or other damage arising out of Landlord's entry onto the Premises as provided in this Section 21. Tenant shall not be entitled to an abatement or reduction of rent if Landlord exercises any rights reserved in this Section 21. Landlord shall conduct its activities on the Premises as provided herein in a manner that will cause the least inconvenience, annoyance or disturbance to Tenant. For each of these purposes, Tenant shall not alter any lock or install a new or additional lock or bolt on any door of the Premises without prior written consent of Landlord. If Landlord shall give its consent, Tenant shall in each case furnish Landlord with a key for any such lock.

22. SUBORDINATION; CERTIFICATES. Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, and at the election of Landlord or any mortgagee or any beneficiary of a deed of trust with a lien on the Project or any ground lessor with respect to the Project, this Lease shall be subject and subordinate at all times to (a) all ground leases or underlying leases which may now exist or hereafter be executed affecting the Project, and (b) the lien of any mortgage or deed of trust which may now exist or hereafter be executed in any amount for which the Project, ground leases or underlying leases, or Landlord's interest or estate in any of said items is specified as

security. In the event that any ground lease or underlying lease terminates for any reason or any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, Tenant shall, notwithstanding any subordination, attorn to and become the Tenant of the successor in interest to Landlord, at the option of such successor in interest. Tenant covenants and agrees to execute and deliver, upon demand, by Landlord and in the form requested by Landlord, any additional documents evidencing the priority or subordination of this Lease with respect to any such ground lease or underlying leases or the lien of any such mortgage or deed of trust. Tenant hereby irrevocably appoints Landlord as attorney-in-fact of Tenant to execute, deliver and record any such document in the name and on behalf of Tenant.

Tenant, within ten days from notice from Landlord, shall execute and deliver to Landlord, in recordable form, certificates stating that Landlord is not in default hereunder, that the Lease is unmodified and in full force and effect, or in full force and effect as modified, and stating the modification. Such certificate shall also state the amount of current monthly rent, the dates to which rent has been paid in advance, and the amount of any security deposit and prepaid rent. Failure to deliver this certificate to Landlord within ten (10) days shall be conclusive upon Tenant that this Lease is in full force and effect and has not been modified except as may be represented by Landlord.

23. NOTICE. Any notice, demand, request, consent, approval, or communication desired by either party or required to be given, shall be in writing and served personally and sent by prepaid first class mail, addressed as set forth in Section 1. Either party may change its address by notification to the other party. Notice shall be deemed to be communicated forty-eight (48) hours from the time of mailing, if mailed, or from time of service, if personally served.

24. WAIVER. No delay or omission in the exercise of any right or remedy by Landlord shall impair such right or remedy or be construed as a waiver. No act or conduct of Landlord, including without limitation, acceptance of the keys to the Premises, shall constitute an acceptance of the surrender of the Premises by Tenant before the expiration of the Term. Only written notice from Landlord to Tenant shall constitute acceptance of the surrender of the Premises and accomplish termination of the Lease. Landlord's consent for approval shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any subsequent act by Tenant. Any waiver by Landlord of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provision of the Lease.

25. SURRENDER OF PREMISES; HOLDING OVER. Upon expiration of the Term, Tenant shall surrender to Landlord the Premises and all tenant improvements and alterations in the condition described in Section 13 above. Tenant shall remove all personal property owned by Tenant and shall perform all restoration made necessary by the removal of any alterations or Tenant's personal property before the expiration of the Term, including for example, restoring all wall surfaces to their condition prior to the Commencement Date. Landlord shall have the right to elect to retain or dispose of in any manner Tenant's personal property not so removed. Tenant waives all claims against Landlord for any damage to Tenant or such personal property resulting from Landlord's retention or disposal of Tenant's personal property. Tenant shall be liable to Landlord for Landlord's costs for storage, removal and disposal of Tenant's personal property.

If Tenant, with Landlord's express written consent, remains in possession of the Premises after expiration or termination of this Lease, or after the date in any notice given by Landlord to Tenant terminating this Lease, such possession by Tenant shall be deemed to be a month-to-month tenancy terminable on thirty (30) day notice at any time, be either party. All provisions of this Lease, except those pertaining to Term and rent, shall apply to the month-to-month tenancy. Tenant shall pay monthly rent in an amount equal to 125% of the Base Monthly Rent which was due with respect to the last full calendar month during the Term, plus 100% of said last month's Tenant's Share of Expenses.

If Tenant holds over after the expiration of the Term or the earlier termination hereof without the express written consent of Landlord, Tenant shall become a tenant at sufferance only, at a rental rate equal to one hundred fifty percent (150%) of the Base Monthly Rent in effect upon the date of such termination expiration, prorated on a daily basis, and subject to the terms, covenants and conditions herein specified, so far as applicable, including Section 4.3. Acceptance by Landlord of rent after such expiration or earlier termination shall not result in a renewal or extension of

this Lease. The foregoing provisions of this Section 25 are in addition to and do not affect Landlord's right of re-entry or any rights of Landlord hereunder or as otherwise provided by law. If Tenant fails to surrender the Premises upon the expiration of this Lease despite demand to do so by Landlord, Tenant shall indemnify and hold Landlord harmless from all loss or liability, including without limitation, any claim made by any succeeding tenant founded on or resulting from such failure to surrender and any attorney's fees and costs.

26. MORTGAGEE PROTECTION. In the event of any default by Landlord, Tenant will give notice by registered or certified mail to any beneficiary of a deed of trust or mortgagee of a mortgage covering the Premises whose address shall have been furnished to Tenant, and shall offer such beneficiary or mortgagee a reasonable opportunity to cure the default, including time to obtain possession of the Premises by power of sale or a judicial foreclosure, if such should prove necessary to effect a cure.

27. LIMITATION OF LIABILITY. In consideration of the benefits accruing hereunder, Tenant agrees that, in the event of any actual or alleged failure, breach or default of this Lease by Landlord, if Landlord is a partnership: (a) The sole and exclusive remedy shall be against the partnership and its partnership assets and the Project, (b) No partner of Landlord shall be sued or named as a party in any suit or action (except as may be necessary to secure jurisdiction of the partnership); (c) No service of process shall be made against any partner of Landlord (except as may be necessary to secure jurisdiction of the partnership); (d) No partner of Landlord shall be required to answer or otherwise plead to any service of process; (e) No judgment may be taken against any partner of Landlord; Any judgment taken against any partner of Landlord may be vacated and set aside at any time without hearing; (g) No writ of execution will ever be levied against the assets of any partner of Landlord; (h) These covenants and agreements are enforceable both by Landlord and also by any partner of Landlord.

Tenant agrees that each of the foregoing provisions shall be applicable to any covenant or agreement either expressly contained in this Lease or imposed by statute or at common law.

28. MISCELLANEOUS PROVISIONS.

28.1 TIME OF ESSENCE. Time is of the essence of each provision of this Lease.

28.2 SUCCESSOR. This Lease shall be binding on and inure to the benefit of the parties and their successors, except as provided in Section 18 herein.

28.3 LANDLORD'S CONSENT. Any consent required by Landlord under this Lease must be granted in writing and may be withheld by Landlord in its sole and absolute discretion.

28.4 COMMISSIONS. Each party represents that it has not had dealings with any real estate broker, finder or other person with respect to this Lease in any manner, except for the broker identified in Section 1.10(5), who shall be compensated by the party identified in Section 1.10(6).

28.5 OTHER CHARGES. If Landlord becomes a party to any litigation concerning this Lease, the Premises or the Project, by reason of any act or omission of Tenant or Tenant's authorized representatives, Tenant shall be liable to Landlord for reasonable attorney's fees and court costs incurred by Landlord in the litigation whether or not such litigation leads to actual court action. If either party commences an

action against the other party arising out of or in connection with this Lease, the prevailing party shall be entitled to recover from the other party reasonable attorney's fees and costs of suit, both at trial and on appeal, such fees to be set by the court before which the matter is heard. If Landlord employs a collection agency to recover delinquent charges, Tenant agrees to pay all collection agency fees charged to Landlord in addition to rent, late charges, interest and other sums payable under this Lease. Tenant shall pay a charge of $75 to Landlord for preparation of a demand for delinquent rent.

28.6 LANDLORD'S SUCCESSORS. In the event of a sale or conveyance by Landlord of the Project, the same shall operate to release Landlord from any liability under this Lease, and in such event Landlord's successor in interest shall be solely responsible for all obligations of Landlord under this Lease.

28.7 INTERPRETATION. This Lease shall be construed and interpreted in accordance with the laws of the slate in which the Premises are located. This Lease constitutes the entire agreement between the parties with respect to the Premises and the Project, except for such guarantees or modifications hereof as may be executed in writing by the parties from time-to-time. When required by the context of this Lease, the singular shall include the plural and vice versa, and any gender shall include the other and/or neuter. "Party" shall mean Landlord or Tenant. Each provision hereof is intended to be severable. The enforceability, invalidity or illegality of any provision shall not render the other provisions unenforceable, invalid or illegal, and the parties intend each provision to be enforceable to the fullest extent permissible as determined by a court of competent jurisdiction if such court determines that any such provision is not fully enforceable as agreed herein.

28.8 EXECUTION AND LIABILITY. If more than one person or entity constitutes Tenant, the obligations of Tenant herein contained shall be joint and several. Each person executing this Lease on behalf of Tenant hereby represents and warrants his or her authority to do so.

28.9 COMPLIANCE WITH DECLARATION. Tenant acknowledges that the Premises are subject to that certain Declaration of Covenants, Conditions, Restrictions and Reservations of Easements for Carmel Mountain Ranch Business Community ("Declaration") recorded May 24, 1984 in the Official Records of San Diego County as instrument No. 84-195381. Tenant covenants and agrees that it accepts the leasehold estate subject to the Declaration to the extent the Declaration affects the Premises subject to this Lease.

29. ENVIRONMENTAL MATTERS

29.1 NO USE OF HAZARDOUS MATERIALS. Lessee agrees that Lessee shall not keep, use, generate, store, release, threaten release, or dispose of any Hazardous Materials (as defined below) on or about the Premises or Project without the prior express written consent of Lessor, which consent may be withheld by Lessor in its sole and absolute discretion provided that such consent shall not be withheld for any Hazardous Materials used by Tenant in the ordinary course of its business and operations at the Premises. For purposes of this provision, "Hazardous Materials shall include all oil, flammable explosives, asbestos, urea formaldehyde, radioactive materials or waste, or other hazardous, toxic, contaminated, or polluting materials, substances or wastes, including, without limitation, substances defined as "hazardous substances," "hazardous materials," "hazardous wastes," or "toxic substances" under any laws, ordinances or regulations heretofore or hereafter enacted or adopted. Under no circumstances shall any sublease or assignment occur, whether with or without the consent of Lessor, which involves any tenant, subtenant or other occupant who keeps, uses, generates, stores, releases, threatens release of or disposes of any Hazardous Materials on or about the Premises or Project in violation of applicable governmental regulations.

29.2 COMPLIANCE WITH ENVIRONMENTAL LAWS. If Lessor consents in writing to the presence, use, generation, storage, release or disposition of Hazardous Materials (collectively, "Use of Hazardous Materials") on or about the Premises or Project, then Lessee shall conduct such Use of Hazardous Materials subject to, and in full compliance with, all local, state, federal and other laws and regulations governing the Use of Hazardous Materials. Lessee shall, at its own expense, procure, maintain in effect and comply with, all conditions of any and all permits, licenses and other governmental and regulatory approvals required for Lessee's use of the Premises, and its Use of Hazardous Materials, including, without limitation, discharge of appropriately treated materials or wastes. Lessee shall, at its sole expense, cause any known Hazardous Materials located on or about the

Premises or Project existing as a result of the activities of Lessee, its agents, employees, invitees or contractors to promptly be removed and transported from the Premises or Project solely by duly licensed haulers to duly licensed facilities for final disposal of such materials and wastes. Lessee shall, in all respects, handle, treat, deal with and manage any and all Hazardous Materials in, on, under or about the Premises or Project in total conformity with all applicable laws and regulations governing the Use of

Hazardous Materials and prudent industrial practices regarding management of such Hazardous Materials. Upon the expiration or earlier termination of the Lease Term, Lessee shall, at its sole expense: (i) cause all Hazardous Materials existing as a result of the activities of Lessee, its agents, employees, invitees or contractors to be removed from the Premises or Project and transported for use, storage or disposal in accordance and compliance with all applicable laws and regulations governing the Use of Hazardous Materials; and (ii) obtain a certificate from an engineer, duly licensed in the State of California and approved by Lessor, certifying that the Premises are completely free of all Hazardous Materials existing as a result of the activities of Lessee, its agents, employees, invitees or contractors: Immediately following the removal of Hazardous Materials, Lessee shall fully restore the Premises or Project to good condition and repair, satisfactory to Lessor and suitable for rental to a new tenant, at Lessee's sole expense, without any abatement or rent. To the extent Landlord is indemnified by any other tenant or occupant of the Project for Hazardous Materials costs, liabilities and claims, to the extent Lessee incurs any costs, expenses or liabilities for such Hazardous Materials, such indemnification shall extend to Tenant under this Lease.

29.3 NOTICES. Lessee shall immediately notify Lessor in writing of: (i) any enforcement, clean-up, removal or other governmental or regulatory actions instituted, completed or threatened pursuant to any laws or regulations governing the use of Hazardous Materials; (ii) any claim made or threatened against Lessee, the Premises, or the Project relating to damage, contribution, cost recovery, compensation, loss or injury resulting from or claimed to result from any Hazardous Materials; and (iii) any reports made to any environmental agency arising out of or in connection with any Hazardous Materials in or removed from the Premises or Project, including any complaints, notices, warnings or asserted violations in connection therewith. Lessee shall also supply to Lessor as promptly as possible, and in any event within five (5) business days after Lessee first received or sends the same, copies of all claims, reports, complaints, notices, warnings or asserted violations relating in any way to the Premises, Project or Lessee's use thereof. Lessee shall promptly deliver to Lessor copies of hazardous waste manifests reflecting the legal and proper disposal of all Hazardous Materials removed from the Premises or Project.

29.4 RELEASE OF LIABILITY. Lessee expressly acknowledges that Lessor has made no representations or warranties, express or implied, with respect to Hazardous Materials in, on, under or about the Premises or Project Lessee fully accepts the Premises in their "AS IS" condition and in connection therewith, Lessee hereby waives and fully releases Lessor from and against any and all claims against Lessor resulting from or related to, directly or indirectly, the existing of any other Hazardous Materials in, on, under or about the Premises or Project prior to the Commencement Date of the Lease. This release of liability and all of the terms herein shall survive the expiration or earlier termination of this Lease.

29.5 INDEMNIFICATION. Lessee hereby agrees to indemnify, defend and hold harmless and release Lessor, its trustees, officers, employees and agents, and the beneficiary or mortgagee under any deed of trust or mortgage now or hereafter encumbering all or any portion or the Premises or Project, from and against any and all actions, legal or administrative proceedings, claims, demands, damages, fines, punitive damages, losses, costs, liabilities, interest, attorney's fees (including any such fees and expenses incurred in enforcing this indemnity), resulting from or relating to, directly or indirectly, the Tenant's use of Hazardous Materials on or about the Premises or Project. The Indemnity set forth herein shall include, without limitation, the cost of any required or necessary repair, clean-up or detoxification of the Premises or Project and the surrounding property and shall survive the expiration or earlier termination of the Lease Term.

29.6 ADDITIONAL INSURANCE OR FINANCIAL CAPACITY. If at any time it reasonably appears to Lessor that Lessee is not maintaining sufficient insurance or other means of financial capacity to enable Lessee to

fulfill its obligations to Lessor under this Section 29, whether or not then accrued, liquidated, conditional or contingent, Lessee shall procure and thereafter maintain in full force and effect such insurance or other form of

financial assurance acceptable to Lessor as Lessor may from time-to-time reasonably request.

30. LEASE BONUS. Upon occupancy, Landlord shall provide $40,308 to Tenant as a lease bonus ("Lease Bonus") for entering into this Lease Agreement.

31. AMERICANS WITH DISABILITIES ACT COMPLIANCE. Landlord shall only pay for Americans with Disabilities Act ("ADA") compliance items that are actually identified by the City of San Diego and shall not be responsible for alterations that are considered Tenant elective or any code compliance issues that result from any improvements to be constructed at the Building or Premises by Tenant. As an example, if Tenant builds additional offices in the Premises and a fire corridor results from such construction, Tenant shall be responsible for the cost to create such a corridor and Landlord shall have no liability with regard to said construction; but if Tenant builds additional offices, and ADA bathroom upgrades are required in existing bathrooms as a condition of approval for Tenant's construction, Landlord shall be responsible for such upgrade costs.

32. AUDIT OF OPERATING EXPENSES. Tenant, at Tenant's sole cost, shall have the right to review and audit the Expense records for the Project and Premises at Landlord's office with reasonable notice, not more frequently than one time per year. Landlord agrees to be prudent and reasonable in the management of thc Project and Premises in order to minimize the Expenses.

33. RENEWAL OPTION. If Tenant is not in default under any of the terms and conditions of this Lease, at the time Tenant exercises such option, Tenant shall have one (1) three (3) year option to renew (the "Option") the Lease for the Premises at the then current market rate. The then current market rate ("Market") shall be defined as similar buildings in the area and include all concessions that would be offered, if any, to a tenant of comparable credit worthiness. Said Option shall not take into consideration the value of any improvements installed by Tenant during the term of this Lease. Should Tenant wish to exercise its option to renew, Tenant must give a six (6) month written notice to Landlord mailed certified by the United States Postal Service.

34. SUBLEASING. Notwithstanding anything to the contrary contained in this Lease, Tenant shall have the right to sublease or assign any portion of the Premises to any subtenant with Landlord's written consent, which consent shall not be unreasonably withheld. All rent received by Tenant from its subtenants in excess of the rent payable by Tenant to Landlord under this Lease shall be paid to Landlord after Tenant recaptures its reasonable costs of subleasing which shall be limited to leasing commissions and tenant improvements constructed for the subtenant by Tenant.

35. EARLY TERMINATION. Tenant shall have the right to terminate the lease early ("Early Termination") on March 31, 2000 and again on March 31, 2001. To exercise the Early Termination on March 31, 2000, Tenant must give written notice to Landlord no later than September 30, 1999. To exercise the Early Termination on March 31, 2001, Tenant must give written notice to Landlord no later than September 30, 2000. Written notice of Early Termination must be sent by certified mail through the United States Postal Service.

36. EARLY TERMINATION FEE. Upon Lease execution, Tenant shall tender a termination fee (the "Termination Fee") to Landlord in the amount of $52,884. The Termination Fee shall be retained by Landlord in a separate money market account selected by Landlord in its sole discretion. All interest earned on said Termination Fee money market account shall be paid to Tenant by Landlord on a yearly basis in arrears. In the event Tenant does not exercise its right to Early Termination on March 31, 2000, the Base Monthly Rent in October 1999 shall be rent free and the November 1999 Base Monthly rent shall be $9,917.52. At this time, the Termination Fee money market account will be reduced by $ l2,225 which shall be retained by Landlord in exchange for the free rent in October 1999 and the reduced rent in November 1999. In the event Tenant does not exercise its right to Early Termination on March 31, 2001, the Base Monthly Rent in October 2000, November 2000 and December 2000 shall be rent free and the Base Monthly Rent in January 2001 shall be $4,954.60. At this time, the Termination Fee money market account will be reduced by $40,659 to zero and the funds will be retained by Landlord in exchange for the free rent in October, November and December 2000 and the reduced rent in January 2001. If Tenant exercises its right to Early Termination on March 31, 2000 Landlord

shall close the separate money market account and shall retain the entire $52,884. If Tenant exercises its right to Early Termination on March 31, 2001,

Landlord shall close the separate money market account and shall retain the $40,659. In the event this Lease terminates for reasons of Destruction or Condemnation, the outstanding amount of the Termination Fee shall be refunded to Tenant. The Termination Fee shall not be considered or recharacterized as a security deposit.

37. NON-DISTURBANCE. Landlord shall make its best efforts to secure a commercially reasonable non-disturbance agreement from any existing or future mortgage lender or ground lessor for the Project on behalf of Tenant. Tenant shall provide the form of non-disturbance agreement to Landlord that it wishes to be signed by Landlord's mortgage lender(s) and ground lessor(s).

38. SIGNAGE. Tenant shall be allowed, with Landlord's reasonable consent, to install a sign at the Project on the building in conformance with all City of San Diego laws and ordinances, the Planned Industrial Development Permit, the CC&R's recorded that affect the property, and any other laws and ordinances which may affect the Property and the Premises in accordance with Exhibit "C" attached hereto.

39. BUILDING WARRANTY. Notwithstanding anything to the contrary contained in this Lease, Landlord, at Landlord's sole cost shall warrant that the roof, existing equipment and HVAC systems, windows and seals, structural components, and all mechanical, electrical and plumbing systems at the Premises and the Project are in good working and waterproof condition. Landlord, at Landlord's sole cost, shall deliver the Premises and Project in a condition that meets with all current codes and conditions and the American's with Disabilities Act. Any such costs for Landlord to comply with this paragraph shall be bid separately by Tenant's contractor, at Landlord's option to use such contractor, and Landlord shall reimburse Tenant for that portion of the work ten (10) working days following receipt of proof of payment by Tenant.

40. HAZARDOUS MATERIALS. Notwithstanding anything to the contrary contained in this Lease, Landlord shall provide to Tenant the existing February 1992 Phase I Environmental Report. Tenant's review and approval of said report shall be a condition to entering into the Lease. Once Tenant has executed this Lease, said condition shall be deemed waived and satisfied. Landlord shall indemnify Tenant against any hazardous materials that may have existed prior to February 1, 1998 in or upon the Project and Premises. Tenant shall indemnify Landlord against Tenant's use of any hazardous materials and shall use any such materials in compliance with all governmental codes and regulations. SEE ADDENDUM A-4.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the date first above written.

LANDLORD JUDD/KING NO. 1, a California general partnership

By: /s/ illegible

TENANT: DIGIRAD CORPORATION, a Delaware corporation

By: /s/ Karen Klause

Karen Klause - Chief Executive Officer

ADDENDUM

A-1 Notwithstanding any provision of this Lease to the contrary, the following shall not be included within Operating Expenses: (i) damage and repairs attributable to fire or other casualty capable of insurance under a standard form of "all-risk" property insurance on the Building or Project; (ii) damage and repairs covered under any other insurance policy carried by Landlord in connection with the Project, to the extent that Tenant's insurance is not the primary coverage therefor, (iii) damage and repairs necessitated by the negligence or willful misconduct of Landlord, its partners, employees, agents, contractors or invitees; (iv) reserves for the repair, replace or improvement of the Building or Project; (v) all rental and other costs due under any ground or underlying lease; (vi) expenses incurred by Landlord in connection with services or other benefits which are not offered to Tenant or items and services for which Tenant or any other occupant of the Project reimburses Landlord (other than through its share of Operating Expenses) or which Landlord provides selectively to one or more tenants, other than Tenant, without reimbursement, and the cost of which is included as Operating Expenses; (vii) the cost of repairing any structural defects in the Building or Project and repairing any material defects in the design, materials or workmanship of the Building or Project; and (viii) Landlord's general overhead and administrative expenses.

A-2 Real property taxes and assessments shall not include (i) reserves for future real property taxes and assessments; and (ii) any documentary transfer taxes arising from a voluntary transfer of the Building or any portion of the Project by Landlord. If a reduction in real property' taxes is obtained for any year of the Term during which Tenant paid tenant's percentage of such real

property taxes, then the Expenses for such year shall be retroactively adjusted and Landlord shall provide Tenant with a credit against Tenant's next due obligations for rent or, if none, refund such amount to Tenant within thirty (30) days based on such adjustment. If, by applicable law, any taxes or assessments may be paid in installments at the option of the taxpayer, then whether or not Landlord elects to pay taxes and assessments in such installments, Tenant's liability for such taxes and assessments shall be computed as if such election had been made, and only the installments thereof which would have become due during the term of the Lease shall be included in Tenant's tax obligations.

A-3 Any provision in this Lease to the contrary notwithstanding, Landlord's consent shall not be required for an assignment or subletting to: (a) any entity who controls, is controlled by or is under common control with Tenant; (b) any successor corporation resulting from reincorporation in another jurisdiction, merger, consolidation, non-bankruptcy reorganization or governmental action (provided that Tenant's net worth and ability to perform its obligations under this Lease are not reduced, and the occupancy density of the Premises is not materially increased, as a result of such merger or consolidation); or (c) to any person or legal entity which acquires all the assets of Tenant as a going concern of the business being conducted on the Premises (each of the foregoing is hereinafter referred to as a "Tenant Affiliate"; provided that before such assignment shall be effective, (a) said Tenant Affiliate shall assume, in full, the obligations of Tenant under this Lease, (b) Landlord shall be given written notice of such assignment and assumption and (c) the use of the Premises by the Tenant Affiliate shall be for the permitted uses set forth in Section 1.4 only. For purposes of this paragraph, the term "control" means possession directly or indirectly, of the power to direct or cause the direction of the management, affairs, and policies of anyone, whether through the ownership of voting securities, by contract or otherwise. The sale or transfer of Tenant's capital stock, including without limitation a transfer in connection with a merger, consolidation or non-bankruptcy reorganization of Tenant and any sale through a public stock exchange, shall not be deemed an assignment, subletting or other transfer or encumbrance of the Lease or the Premises.

A-4 If the release of any Hazardous Materials on, under, from or about the Premises or the Project caused by Landlord, its authorized agents or employees, and not introduced by Tenant, its agents, employees, contractors, licensees, or invitees results in (i) injury to any person or (ii) injury to or any contamination of the Premises or Project at levels which require clean up or remediation under applicable laws, Landlord, at its expense (which shall not be included in Operating Expenses), shall promptly take all actions necessary to return the Premises and the Project to the condition existing prior to the introduction of such Hazardous Materials, or to such condition that is satisfactory to all governmental agencies asserting jurisdiction and to remedy or repair any such injury or contamination, including without limitation, any clean up remediation, removal, disposal, neutralization or other treatment of any such Hazardous Materials. If the

release of Hazardous Materials caused by Landlord, its authorized agents or employees, renders the Premises untenantable in whole or in part or results in Tenant being required to vacate the Premises in whole or in part pursuant to an order or requirement of any governmental agency or authority, then the Base Monthly Rent and Expenses and other charges, if any, payable by Tenant hereunder for the period during which the Premises (or a portion thereof) remains so impaired shall be abated in proportion to the agreed of which Tenant's use of the Premises is impaired and for the period of such impairment. If the period of such impairment shall exceed three (3) months, Tenant shall have the right to terminate this Lease upon written notice to Landlord given within tell (10) days following the passage of such three (3) month period. Tenant's termination of this Lease pursuant to this paragraph shall be effective as of the date of such notice.

EXHIBIT A

[FLOOR PLAN]

EXHIBIT "B"
The Project

[FLOOR PLAN]

EXHIBIT C

SIGN REGULATIONS:

These sign regulations have been established for the purpose of maintaining the overall appearance of the project at 9350 Trade Place, San Diego, CA 92126. Conformance will be strictly enforced. Any sign installed that does not conform to the sign regulations or have specific written approval of Landlord will be brought immediately to conformity at the expense of the Tenant.

General Requirements:

1. A drawing of all proposed tenant signs indicating copy, sizes, color and location shall be submitted to Landlord, prior to fabrication or installation of any sign.

2. Approval of all copy and/or logo design and color must be obtained from Lessor prior to fabrication of installation of any sign.

3. Tenant shall be responsible for the fulfillment of requirements set forth in this Exhibit.

4. Sign fabrication and installation shall be paid for by the Tenant.

General Specifications:

1. Tenant will be allowed the use of his own logo/logotype for his tenant identification. When tenant logo and logotype are used together, then logo and logotype shall not exceed two (2) feet in height (measured capital height). If logo is used alone, then maximum height of logo can be increased to three (3) feet. Logotype, however, can never exceed two (2) feet in height. Maximum sign area shall not exceed forty (40) square feet. The area shall be fabricated as individual letters and, if illuminated, shall be internally illuminated without a halo. No illuminated sign cabinets shall be permitted.

2. All signs and their installation must comply with all local, building and electrical codes.

3. Signs visible from the exterior of the building, if illuminated, shall be internally illuminated without a halo, but no signs or any other contrivance shall be devised or constructed so as to rotate, gyrate, blink, move, or appear to move in any fashion.

4. Any damage to the building caused by removal of any sign will be repaired by the Tenant at Tenant's sole expense.

5. Except as provided herein, no advertising placards, banners, pennants, insignia, trademark or other descriptive material shall be affixed to or maintained upon any automated machine, glass panes of the building, landscaped areas, streets, or parking areas.

FIRST AMENDMENT TO LEASE

This First Amendment to Leases entered into as of January 27, 1998, by and between Judd/King No. 1 ("Landlord") and Digirad Corporation, a Delaware Corporation ("Tenant") with reference to the following facts:

A. On or about January 27, 1998, Landlord and Tenant entered into a lease ("Lease") for the premises described as follows: 9350 Trade Place, Suite A, San Diego, CA 92126.

B. Landlord and Tenant now desire to amend the Lease as set forth herein.

NOW, THEREFORE, the parties hereto agree as follows:

1. CONDEMNATION. Section 17.4 of the Lease is hereby amended and restated in its entirety as follows:

17.4 AWARD. Any award for the taking of all or any part of the Premises as a result of any Condemnation for any payment under the threat of exercise of Condemnation shall be the property of Landlord, whether such Award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee or as severance damages or for any other reason; provided, however, that Tenant shall be entitled to any Award expressly and separately made for loss of or damage to Tenant's trade fixtures and removable personal property and relocation expenses.

2. DEFAULT. Section 19 of the Lease is hereby amended by adding thereto the following sentence:

In addition, the occurrence of any of the following shall also constitute a default by Tenant: (i) the making by Tenant of any general arrangement or assignment for the benefit of creditors; (ii) Tenant becomes a "debtor" as defined in 12 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Tenant, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within 30 days.

3. SUBORDINATION. Section 22 of the Lease is hereby amended such that all references to a deed of trust or mortgage shall refer to a first and senior deed of trust or mortgage, as the case may be.

4. LIMITATION OF LIABILITY. Section 27 of the Lease is hereby amended and restated in its entirety as follows:

27. LIMITATION OF LIABILITY. In consideration of the benefits accruing hereunder, Tenant agrees that in the event of any actual or alleged failure, breach or default of this Lease by Landlord:

a. The sole and exclusive remedy shall be against the property of which the Premises are a part; and

b. Neither Landlord, any partner of Landlord if Landlord is a partnership, or any shareholder of Landlord if Landlord is a corporation shall be sued or named as a party in any suit or action (except as may be necessary to secure jurisdiction over the Property of which the Premises are a part), and no judgment may be taken against any such person.

5. LANDLORD SUCCESSORS. Section 28.6 is hereby amended and restated in its entirety as follows:

28.6 LANDLORD SUCCESSORS. In the event of a sale, conveyance, foreclosure action or deed in lieu of foreclosure by Landlord of the Project, the same shall operate to release Landlord from any liability under this Lease, and in such event Landlord's successor in interest shall be solely responsible for all obligations of Landlord under this Lease arising after such sale or conveyance; provided however, such successor shall not be liable for any prior defaults of Landlord.

6. FULL FORCE AND EFFECT. Except as set forth herein, the Lease is unmodified and in full force and effect.

LANDLORD:

Judd/King No. 1,
a California general partnership

By: /s/ illegible

TENANT:

Digirad Corporation, a Delaware corporation

By: /s/ Karen Klause

(printed name and title)
Karen Clause - Chief Executive Officer

EXHIBIT 10.12

ASSET PURCHASE AGREEMENT

by and among

DIGIRAD IMAGING SYSTEMS, INC.

and

NUCLEAR IMAGING SYSTEMS, INC.

and

CARDIOVASCULAR CONCEPTS, P.C.

dated September 29, 2000

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ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement ("Agreement") is made and entered into as of September 29, 2000, by and among Digirad Imaging Systems, Inc., a Delaware corporation ("Purchaser") on the one hand, and Nuclear Imaging Systems, Inc., a Pennsylvania corporation and Cardiovascular Concepts, P.C. (together, the "Companies") on the other.

RECITALS

WHEREAS, Nuclear Imaging Systems, Inc. is a debtor and debtor in possession in chapter 11 case no. 00-19698-BIF and Cardiovascular Concepts, P.C. is a debtor in chapter 11 case no. 00-19697-BIF, each pending in the United States Bankruptcy Court for the Eastern District of Pennsylvania (the "Bankruptcy Court"), and each of which bankruptcy cases are hereafter referred to as the "Bankruptcy Case" inasmuch as the two have been consolidated for administrative purposes, though not substantively consolidated;

WHEREAS, one or both of the Companies, as part of a larger business, operate a service that provides mobile delivery of diagnostic cardiac services, diagnostic imaging equipment and related technical services to physicians providing cardiology services (the "Mobile Business");

WHEREAS, Purchaser desires to purchase all assets of the Companies pertaining to the Mobile Business, on the terms and conditions set forth herein;

WHEREAS, Nuclear Imaging Systems, Inc. is believed to be the sole owner of the assets defined below as the "Purchased Assets", but in an abundance of caution Cardiovascular Concepts, P.C. is included as one of the two "Companies" selling all of its right, title and interest in the Purchased Assets to Purchaser subject to the terms and conditions set forth herein such that it is clear that Purchaser will acquire 100% of the Purchased Assets comprising the Mobile Business;

WHEREAS, Jeffrey Mandler ("Mandler") is the principal and sole shareholder of Nuclear Imaging Systems, Inc. and of Cardiovascular Concepts, P.C., and is himself a debtor in a chapter 11 case (the "Mandler Case") before the Bankruptcy Court;

WHEREAS, Medical Management Concepts, Inc. ("MMC") is a sister corporation of Nuclear Imaging Systems, Inc. and an affiliate of Cardiovascular Concepts, P.C.;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I.
DEFINITIONS

1.1 DEFINED TERMS. As used in this Agreement, the following defined terms have the meanings indicated below:

"ACTIONS OR PROCEEDINGS" means any action, suit, proceeding, arbitration, Order (as defined below), inquiry, hearing, assessment with respect to fines or penalties or litigation (whether civil, criminal, administrative, investigative or informal) commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental or Regulatory Authority (as defined below).

"ACQUISITION DOCUMENTS" means this Agreement and each of the other documents executed pursuant hereto or concurrently herewith.

"AFFILIATE" means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such Person.

"ASSETS AND PROPERTIES" and "ASSETS OR PROPERTIES" of any Person each means all assets and properties of every kind, nature, character and description (whether real, personal or mixed, whether tangible or intangible, whether absolute, accrued, contingent, fixed or otherwise and wherever situated), including the goodwill related thereto, operated, owned or leased by such Person, including, without limitation, cash, cash equivalents, accounts and notes receivable, chattel paper, documents, instruments, general intangibles, real estate, equipment, inventory, goods and intellectual property.

"ASSUMED CONTRACTS" has the meaning set forth in SECTION 2.1(c).

"ASSUMED LIABILITIES" has the meaning set forth in SECTION 2.30.

"BANKRUPTCY COURT ORDER", means the order of the Bankruptcy Court in form and substance satisfactory to Purchaser approving the sale of the Purchased Assets to Purchaser and approving the other terms of this Agreement and the other Acquisition Documents.

"BOOKS AND RECORDS" of any Person means all files, documents, instruments, papers, books, computer files (including but not limited to files stored on a computer's hard drive or on floppy disks), electronic files and records in any other medium relating to the business, operations or condition of such Person.

"BUSINESS DAY" means a day other than Saturday, Sunday or any day on which banks located in the State of California are authorized or obligated to close.

"CLOSING DATE" means the date upon which all conditions precedent to Purchaser's obligations hereunder have been satisfied or waived in writing by Purchaser.

"COMPANIES" has the meaning set forth in the first paragraph of this Agreement.

"DAMAGES" has the meaning set forth in SECTION 7.2(a) below.

"DISCLOSURE SCHEDULE" means the disclosure schedule attached hereto which sets forth the exceptions to the representations and warranties contained in ARTICLE III hereof and certain other information called for by this Agreement.

"ENCUMBRANCES" means any mortgage, pledge, assessment, security interest, deed of trust, lease, lien, adverse claim, levy, charge, right of redemption or other encumbrance of any kind, or any conditional sale or title retention agreement or other agreement to give any of the foregoing in the future.

"FINANCIAL STATEMENTS" means (i) the unaudited balance sheet of Nuclear Imaging Systems, Inc. and the related unaudited statement of income and retained earnings for the period ended on December 31, 1999, together with the notes thereto and the related report of Nuclear Imaging Systems, Inc.'s independent certified public accountants and (ii) the Interim Financial Statements (as defined below) for Nuclear Imaging Systems, Inc..

"GAAP" means generally accepted accounting principles, consistently applied with past practices.

"GOVERNMENTAL OR REGULATORY AUTHORITY" means any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States or other country, any state, county, city or other political subdivision.

"INTERIM FINANCIAL STATEMENTS" means the unaudited balance sheet and the related unaudited statement of income and retained earnings for Nuclear Imaging Systems, Inc., in each case for the four (4) month period ended August 31, 2000.

"LIABILITIES" means any liability, debts, obligations of any kind or nature (whether known or unknown, whether asserted, or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including but not limited to any liability for Taxes (as defined below).

"MATERIAL ADVERSE EFFECT" means, for any Person, a material adverse effect whether individually or in the aggregate (a) on the business, operations, financial condition, Assets and Properties, Liabilities or prospects of such Person, or (b) on the ability of such Person to consummate the transactions contemplated hereby.

"NON-COMPETITION AGREEMENT" has the meaning set forth in SECTION 6.1(k).

"ORDINARY COURSE OF BUSINESS" means the action of a Person that is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person.

"PERMITS" means all licenses, permits, certificates of authority, authorizations, approvals, registrations and similar consents granted or issued by any Governmental or Regulatory Authority.

"PERSON" means any natural person, corporation, general partnership, limited partnership, limited liability company, proprietorship, other business organization, trust, union, association or Governmental or Regulatory Authority.

"PURCHASED ASSETS" has the meaning set forth in SECTION 2.1.

"CASH PURCHASE PRICE" has the meaning set forth in SECTION 2.4.

"PURCHASER" has the meaning set forth in the first paragraph of this Agreement.

"RADIATION MATERIALS LICENSES" means the radiation materials licenses described in SCHEDULE 2.1(d) attached hereto.

"RADIATION SAFETY OFFICERS" means Dr. Joel Raichlin (for New Jersey and Pennsylvania), Shaukat Kahn, MD (for North Carolina) and Andrew Keenan, M.D. (for Maryland).

"RADIATION SAFETY OFFICER SERVICES AGREEMENT has the meaning set forth in SECTION 6.1(c) below.

"REAL PROPERTY" has the meaning set forth in SECTION 3.13.

1.2 CONSTRUCTION OF CERTAIN TERMS AND PHRASES. Unless the context of this Agreement otherwise requires, (a) words of any gender include each other gender; (b) words using the singular or plural number also include the plural or singular number, respectively; (c) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (d) the terms "Article" or "Section" refer to the specified Article or Section of this Agreement; (e) the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or"; and (f) "including" means "including without limitation." Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified. All accounting terms used herein and not expressly defined herein shall have the meanings given to them under GAAP.

ARTICLE II.
PURCHASE AND SALE OF ASSETS

2.1 PURCHASE AND SALE OF CERTAIN ASSETS OF THE COMPANIES. Subject to the terms and conditions of this Agreement, the Companies (and each of them) shall sell, convey, assign, transfer and deliver to Purchaser, and Purchaser shall purchase and acquire from the Companies, free and clear of all liens, claims and Encumbrances, and free of all adverse claims of any kind whatsoever, all of the Companies' right, title, and interest in and to all assets, properties, rights, leases, fixtures, accessions, claims, contracts and interests of the Companies of every kind, type or description, real, personal and mixed, tangible and intangible, wherever located and whether or not specifically referred to in this Agreement, that are used in and/or pertain to the Mobile Business (collectively, the "Purchased Assets"), including without limitation:

(a) all the equipment, leasehold improvements, hardware, software and other operating assets owned or leased by the Companies (or either of them) and used in the Mobile Business, as set forth in SCHEDULE 2.1(a) attached hereto;

(b) all customer lists and customer accounts (excluding accounts receivable owing to the Companies, or either of them, arising before the Closing Date) owned by the Companies (or either of them) relating to the Mobile Business as set forth in SCHEDULE 2.1(b) attached hereto (the "Customer Lists and Accounts");

(c) all of each Companies' right, title and interest in

and to the contracts and agreements related to its Mobile Business as set forth in SCHEDULE 2.1(c) attached hereto (the "Assumed Contracts");

(d) all Permits and all Radiation Materials Licenses issued to or held by either of the Companies necessary or incidental to the conduct of the Mobile Business, each as more particularly set forth in SCHEDULE 2.1(d) attached hereto (the "Permits");

(e) all of the operating data, books, files, documents and records of the Companies (or either of them) relating to the Mobile Business (the "Mobile Business Records");

(f) [Omitted];

(g) all prepaid expenses and deposits relating to the Mobile Business, as identified in SCHEDULE 2.1(g) attached hereto;

(h) the goodwill and going concern value of the Mobile Business.

2.2 EXCLUDED ASSETS. Notwithstanding SECTION 2.1 hereof, the Purchased Assets shall not include any minute books, partnership records and other records of the Companies (or either of them) which are not Mobile Business Records; provided however that each of the Companies shall provide Purchaser with access to the Books and Records of each such Company upon request after the Closing Date and, if the Companies (or either of them) shall for any reason cease to remain in business or become acquired by persons or entities other than Purchaser or the Companies (or either of them) such books and records shall be made available to Purchaser for copying (at Purchaser's expense) without extra charge prior to dissolution of the Companies (or either of them) or acquisition of the Companies (or either of them) or their respective assets by persons other than Purchaser. Moreover, the Purchased Assets shall not include the assets set forth in SCHEDULE 2.2 attached hereto. With respect to the assets on SCHEDULE 2.2, the assets listed in Part I thereof are to be leased to Purchaser pursuant to the "Equipment Lease Agreement" described below and the assets listed in Part II of SCHEDULE 2.2 are to be made available for the use of Purchaser through December 31, 2000 at no additional charge to Purchaser.

2.3 ASSUMED LIABILITIES/EXCLUDED LIABILITIES. As of the Closing Date, Purchaser agrees to assume, satisfy or perform when due only those liabilities and obligations of the Companies (or either of them) listed in Schedule 2.3, but only to the extent such obligations (A) arise after the Closing Date, (B) do not arise from or relate to any breach by the Companies (or either of them) of any obligations under the Purchased Assets or any provision of any of the

Assumed Contracts except those to be performed after the Closing Date, and (C) do not arise from or relate to any event, circumstance or condition occurring or existing on or prior to the Closing Date that, with notice or lapse of time, would constitute or result in a breach of any obligations under the Purchased Assets or any Assumed Contract (the "Assumed Liabilities"). Other than the Assumed Liabilities, Purchaser shall not assume, or be deemed to have assumed or guaranteed, or otherwise be responsible for any liability, obligation or claims of any nature of the Companies (or either of them), whether matured or unmatured, liquidated or unliquidated, fixed or contingent, known or unknown, or whether arising out of acts or occurrences prior to, at or after the date hereof.

2.4 PURCHASE PRICE. At the Closing Date, as consideration for the Purchased Assets, Purchaser agrees to pay to Nuclear Imaging Systems, Inc., SEVEN HUNDRED TWENTY-FIVE THOUSAND DOLLARS ($725,000) in cash (the "Cash Purchase Price") $100,000 of which shall be deposited into the Maintenance Escrow described in SECTION 2.5 and $25,000 of which shall be reserved by Purchaser for application to reasonable attorneys' fees and costs incurred by Digirad in negotiating, documenting, defending and obtaining court approval from the Bankruptcy Court of the transactions described herein. After all reasonable attorneys' fees and costs have been reimbursed, any balance remaining shall be promptly delivered to Nuclear Imaging Systems, Inc.

2.5 MAINTENANCE ESCROW. Immediately on the Closing Date, $100,000 of the Cash Purchase Price shall be deposited into an escrow (the "Maintenance Escrow") subject to an escrow agreement in the form of EXHIBIT A and otherwise in all respects satisfactory to Purchaser. The Maintenance Escrow shall constitute security for the obligation of Nuclear Imaging Systems, Inc. to provide maintenance to the Leased Equipment referenced in SECTION 2.6 during the entire term of the Equipment Lease and Purchaser shall be entitled (as provided in the Bankruptcy Court Order) to a duly perfected first priority security interest in the funds in the Maintenance Escrow to secure Nuclear Imaging Systems, Inc.'s performance of said maintenance obligation. Moreover, should Nuclear Imaging Systems, Inc. fail to keep the Leased Equipment in good repair and fully operational at all times, Purchaser may obtain the services of a third party to maintain and repair the Leased Equipment and shall be entitled to

surcharge the Maintenance Escrow for all costs and expenses of such third party maintenance.

2.6 LEASE OF CERTAIN EQUIPMENT. As a material inducement to Purchaser to acquire the Purchased Assets, Purchaser has agreed that certain equipment of the Companies (the "Leased Equipment") shall be leased to Purchaser pursuant to the terms of the Lease attached hereto as EXHIBIT B (the "Equipment Lease Agreement") at a monthly rental of $2,000 per month per system, all as more particularly described in the Equipment Lease.

2.7 ALLOCATION OF AGGREGATE PURCHASE PRICE. The allocation of the Purchase Price shall be determined by Purchaser in its sole discretion and as set forth on Schedule 2.7 attached hereto. Purchaser and the Companies agree (a) to report the sale of the Purchased Assets for federal and state tax purposes in accordance with the allocations set forth on Schedule 2.7 hereto, and (b) not to take any position inconsistent with such allocations on any of their respective tax returns.

2.8 SALES, USE AND OTHER TAXES. The Companies shall be responsible for all sales and use taxes, if any, arising out of the sale of the Purchased Assets to Purchaser pursuant to this Agreement.

2.9 [OMITTED].

2.10 REAL PROPERTY LEASES. Also as material inducement to Purchaser to enter into this Agreement, each Company (as may be appropriate) agrees that it shall arrange for Purchaser to occupy the premises that are the subject of three "Real Property Leases" in favor of Nuclear Imaging Systems, Inc. as "lessee" for the periods indicated below, as follows:

a. PLYMOUTH MEETING, PA. Nuclear Imaging Systems, Inc. represents and warrants to Purchaser that "Lease No. 1" relating to the location in Plymouth Meeting, PA expires by its own terms on December 31, 2000, is not in default and the monthly rent reserved under the lease is $1,800 per month. Lease No. 1 is to be assumed by Nuclear Imaging Systems, Inc. and assigned to Purchaser subject to a rent pro ration between Nuclear Imaging Systems, Inc. and Purchaser such that Nuclear Imaging Systems, Inc. shall be responsible for paying the daily rental for any period prior to the Closing Date, and Purchaser for any period thereafter. The security deposit (if any) paid by Nuclear Imaging Systems, Inc. to the lessor of Lease No. 1 shall remain on deposit with the lessor and shall be released to the bankruptcy estate of Nuclear Imaging Systems, Inc. upon the expiration of Lease No. 1, net of any deductions from said deposit as permitted under Lease No. 1 and applicable law.

b. BURLINGTON, NC. Nuclear Imaging Systems, Inc. represents and warrants to Purchaser that "Lease No. 2" relating to the location in Burlington, NC was extended beyond the original August 31, 2000 termination date for three months until November 30, 2000, that it is not in default and that the monthly rental reserved thereunder is $889. Rather than assume and assign this lease to Purchaser, Nuclear Imaging Systems, Inc. agrees to obtain the replacement of the existing lease with a month-to-month lease on the same terms and rental rate as the existing lease, but in favor of Purchaser and on a month-to month bases, subject to termination on 30-days' notice. Alternatively, if the lessor under Lease No. 2 refuses to consent to the new lease, Nuclear Imaging Systems, Inc. shall obtain assumption and assignment to Purchaser as was the case with Lease No. 1.

c. ROCKVILLE, MD. Nuclear Imaging Systems, Inc. represents and warrants to Purchaser that "Lease No. 3" relating to the location in Rockville, MD was extended for 3 years beyond its original September 30, 1999 termination date such that it is set to expire on September 30, 2002, that it is not in default and that the monthly rental reserved thereunder is $5,419.70. Nuclear Imaging Systems, Inc. is presently using the property and expects to do so after the Closing Date. Nuclear Imaging Systems, Inc. agrees, as a material inducement to Purchaser to enter into this Agreement, to allow Purchaser to use approximately one-twelfth of the space free of charge for 90 days after the Closing Date.

ARTICLE III.
REPRESENTATIONS AND WARRANTIES OF THE COMPANIES

Each of the Companies, jointly and severally represents and warrants to Purchaser as of the Closing Date (and Mandler, by executing where indicated below under the signatures of the parties hereto, jointly and

severally represents and warrants to Purchaser) that, except as set forth on the Disclosure Schedule furnished to Purchaser specifically identifying the relevant subparagraph hereof, which exceptions shall be deemed to be representations and warranties as if made hereunder, as follows:

3.1 ORGANIZATION OF NUCLEAR IMAGING SYSTEMS, INC. Nuclear Imaging Systems, Inc. is a corporation duly organized, validly existing, and in good standing under the laws of the State of Pennsylvania. Nuclear Imaging Systems, Inc. is duly authorized to conduct business and is in good standing in each jurisdiction where such qualification is required except for any jurisdiction where failure so to qualify would not have a Material Adverse Effect upon Nuclear Imaging Systems, Inc. Nuclear Imaging Systems, Inc. has full power and authority, and holds all Permits and authorizations necessary to carry on its Mobile Business and to own and use the Assets and Properties owned and used by Nuclear Imaging Systems, Inc. except where the failure to have such power and authority or to hold such Permit or authorization would not have a Material Adverse Effect on Nuclear Imaging Systems, Inc.'s Mobile Business. Nuclear Imaging Systems, Inc. has delivered to Purchaser correct and complete copies of its charter documents and organizational documents, each as amended to date.

3.2 ORGANIZATION OF CARDIOVASCULAR CONCEPTS, P.C. Cardiovascular Concepts, P.C. is a professional corporation duly organized, validly existing, and in good standing under the laws of the State of Pensylvania. Cardiovascular Concepts, P.C. is duly authorized to conduct business and is in good standing in each jurisdiction where such qualification is required except for any jurisdiction where failure so to qualify would not have a Material Adverse Effect upon Cardiovascular Concepts, P.C. Cardiovascular Concepts, P.C. has full power and authority, and holds all Permits and authorizations necessary to carry on the Mobile Business and to own and use the Assets and Properties owned and used by Cardiovascular Concepts, P.C. except where the failure to have such power and authority or to hold such Permit or authorization would not have a Material Adverse Effect on the Mobile Business, and/or except where the same is owned by Nuclear Imaging Systems, Inc. prior to the sale thereof to Purchaser. Cardiovascular Concepts, P.C. has delivered to Purchaser correct and complete copies of its charter documents and organizational documents, each as amended to date.

3.3 AUTHORITY OF THE COMPANIES. Each of the Companies has all necessary power and authority and has taken all action necessary to enter into this Agreement, to consummate the transactions contemplated hereby and to perform its obligations hereunder and no other proceedings on the part of either of the Companies are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each of the Companies and constitutes a legal, valid and binding obligation of the Companies enforceable against the Companies in accordance with its terms.

3.4 NO AFFILIATES. The Companies do not have any Affiliates (other than MMC) and neither of the Companies is a partner in any partnership or a party to a joint venture.

3.5 NO CONFLICTS. The execution and delivery by the Companies of this Agreement do not, and the performance by the Companies of their respective obligations under this Agreement and the consummation of the transactions contemplated hereby and in the other Acquisition Documents will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the charter documents, bylaws or other organizational documents of either of the Companies;

(b) conflict with or result in a violation or breach of any term or provision of any law, Order, Permit, statute, rule or regulation applicable to the Companies, the Mobile Business, or the Purchased Assets;

(c) result in a breach of, or default under (or give rise to right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, permit agreement, lease or other similar instrument or obligation to which either of the Companies, the Mobile Business or the Purchased Assets may be bound, except for such breaches or defaults as set forth in SECTION 3.5(c) of the Disclosure Schedule as to which requisite waivers or consents will have been obtained by the Closing Date; or

(d) result in an imposition or creation of any Encumbrance on the Mobile Business or the Purchased Assets.

3.6 CONSENTS AND GOVERNMENTAL APPROVALS AND FILINGS. Except as set forth in Section 3.6 of the Disclosure Schedule, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority or other Persons is required in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby or by the other Acquisition Documents.

3.7 BOOKS AND RECORDS. The minute books and other corporate records of the Companies (and each of them) as made available to Purchaser contain a true and complete record, in all material respects, of all actions taken at all meetings and by all written consents in lieu of meetings of the shareholders, the boards of directors and committees of the boards of directors of the Companies. The other Books and Records of each Company are true, correct and complete.

3.8 FINANCIAL STATEMENTS. Nuclear Imaging Systems, Inc. has previously delivered to Purchaser the Financial Statements. Such Financial Statements (i) are true, correct and complete, (ii) are in accordance with the Books and Records of Nuclear Imaging Systems, Inc., (iii) have been prepared in conformity with GAAP, and (iv) fairly present the financial condition and results of operations of Nuclear Imaging Systems, Inc. as of the respective dates thereof and for the periods covered thereby; PROVIDED that the Interim Financial Statements are subject to normal year-end adjustments and lack footnotes and certain other presentation items.

3.9 NOTICE TO CREDITORS. The Companies and Mandler have each given notice as is required by applicable law of the motions seeking approval of the transactions described herein and in the other Acquisition Documents to all:

(i) creditors (and interest holders) of the Companies and/or Mandler;

(ii) parties to Assumed Contracts referred to in SECTION 2.1(c) and parties to the three real property leases referred to in SECTION 2.10;

(iii) customers of the Mobile Business including those identified by the Customer Lists and Accounts referred to in SECTION 2.1(b);

(iv) each of the Radiation Officers;

(v) the Environmental Protection Agency and all governmental authorities either engaged in the regulation or oversight of the services performed in the Mobile Business or having any regulatory or other interest in any assets, rights, permits, licenses or contracts assigned or transferred to Purchaser including the Permits and the Radiation Material Licenses referred to in SECTION 2.1(d) and the related Schedule;

(vi) parties in pending or threatened lawsuits or other Actions and Proceedings, involving Companies and/or Mandler;

(vii) parties who have asserted or have threatened to assert claims against or interests in any of the Purchased Assets;

(viii) taxing authorities with jurisdiction over either of the Companies and/or Mandler and/or their respective assets;

(ix) unions and parties to any employment contract or collective bargaining agreement, written or oral; and

(x) employees of the Companies (and either of them).

3.10 NO ADVERSE CHANGES. Since December, 1999:

(a) Neither Company has cancelled, compromised, waived or released any right or claim (or series of related rights and claims) relating to the Mobile Business or the Purchased Assets either involving more than $5,000 in any case, or $15,000 in the aggregate.

(b) Neither Company has paid, discharged or satisfied any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) relating to its Mobile Business or the Purchased Assets involving more than $5,000 in any case, or $15,000 in the aggregate.

(c) There has not been any resignation or termination of any key officers or employees of either Company, including, without limitation,

those acting as a Radiation Safety Officer with respect to a Radiation Materials License, or any impending or threatened resignation or termination of employment of any such officer or employee, except as disclosed in the Disclosure Schedule.

(d) There has not been a revaluation by either Company of any of the Purchased Assets.

(e) Neither Company has returned any deposits or received requests or threats to return any deposits in connection with or any cancellation or threatened cancellation of any Assumed Contracts.

(f) None of Mandler, either Company nor any officer or employee thereof has negotiated or agreed to do any of the things described in the preceding clauses (a) through (e) (other than negotiations with Purchaser and its representatives regarding the transactions contemplated by this Agreement).

3.11 NO UNDISCLOSED LIABILITIES. Except as disclosed in SECTION 3.11 of the Disclosure Schedule or in the Financial Statements or in the Schedules filed in the Bankruptcy Case, there are no Liabilities, nor any basis for any claim against the Companies (or either of them) for any such Liabilities, relating to or affecting the Companies (or either of them), the Mobile Business or the Purchased Assets, other than Liabilities incurred after the end of the period covered by the Interim Financial Statements in the Ordinary Course of Business which have not had, and could not reasonably be expected to result in, individually or in the aggregate, a Material Adverse Effect on the Companies, the Mobile Business or the Purchased Assets.

3.12 PURCHASED ASSETS. The Disclosure Schedule contains in SECTION 3.12 a complete and accurate schedule specifying the location of all of the Purchased Assets, where applicable, as of the Closing Date. The Purchased Assets (together with the Excluded Assets referenced in SECTION 2.2 hereof), constitute all property of any nature owned by and/or used in, or useful to, the operation of the Mobile Business as conducted at this date. All tangible personal property of the Companies included in the Purchased Assets is in good operating condition and repair, ordinary wear and tear excepted. Nuclear Imaging Systems, Inc. shall be in actual possession of all of the Purchased Assets as of the Closing Date.

3.13 REAL PROPERTY. The Disclosure Schedule in SECTION 3.13 contains a description of each parcel of real property leased by either Company relating to the Mobile Business as lessee (the "Real Property"), which pieces of Real Property include the real property subject to each of Lease No. 1, Lease No. 2, and Lease No. 3 (which three leases are referred to as the "Real Property Leases). Nuclear Imaging Systems, Inc. has a valid leasehold interest in all such Real Property for the periods and on the terms indicated in SECTION 3.13 of the Disclosure Schedule, and each of the representations and warranties of Nuclear Imaging Systems, Inc. and/or Cardiovascular Concepts, P.C., made in SECTION 2.10 above with regard to the Real Property Leases is true and correct. Nuclear Imaging Systems, Inc. has rights of ingress and egress with respect to the Real Property, and all buildings, structures, facilities, fixtures and other improvements thereon material for the operation of the Mobile Business. There is no pending or contemplated or threatened condemnation of any of the respective parcels of Real Property or any part thereof. None of such Real Property, buildings, structures, facilities, fixtures or other improvements, or the use thereof, contravenes or violates any building, zoning, fire protection, administrative, occupational safety and health or other applicable law, rule, or regulation except for any contravention or violation which individually or in the aggregate could not reasonably be expected to result in a Material Adverse Effect on the Mobile Business. Each lease with respect to the Real Property is a legal, valid and binding agreement of Nuclear Imaging Systems, Inc. subsisting in full force and effect enforceable in accordance with its terms, and except as set forth in SECTION 3.13 of the Disclosure Schedule, there is no, and neither Company has received notice of any, default (or any condition or event which, after notice or lapse of time or both, would constitute a default) thereunder. The leases in effect (including each of the Real Property Leases, as amended or extended) allow the particular use of the premises involved, and no provision of any lease prohibits or unduly limits either Company's ability to conduct its business so as to have a Material Adverse Effect on either Company if enforced. Neither Company owes any brokerage commissions with respect to any such Real Property. Neither Company owns any real property.

3.14 LICENSES. SECTION 3.14 of the Disclosure Schedule lists all contracts, licenses and agreements to which either Company is a party that are currently in effect and that are necessary or useful in connection with the Mobile Business. The contracts, licenses and agreements listed in SECTION 3.14 of the Disclosure Schedule are in full force and effect. The consummation of the transactions contemplated by this Agreement and/or in the other Acquisition Documents in the Bankruptcy Court Order will neither violate nor result in the breach, modification, cancellation, termination or suspension of such contracts, licenses and agreements (except as such events are not enforceable or actionable post-bankruptcy). Each Company is in compliance with, and has not breached any term any of such contracts, licenses and agreements and, to the knowledge of

Mandler and/or each Company (after diligent inquiry), all other parties to such contracts, licenses and agreements are in compliance with, and have not breached any term of, such contracts, licenses and agreements.

3.15 NON-INFRINGEMENT. The operation of the Mobile Business, as such Mobile Business currently is conducted, has not, does not and will not infringe or misappropriate the intellectual property of any third party or constitute unfair competition or trade practices under the laws of any jurisdiction. Neither Company (including each Company's officers, directors and, to the knowledge of Mandler and/or each Company, after diligent inquiry, employees) has received notice from any third party that the operation of the Mobile Business or

any act, product or service of either Company infringes or misappropriates the intellectual property of any third party or constitutes unfair competition or trade practices under the laws of any jurisdiction. To the knowledge of Mandler and/or each Company, (i) no Person has or is infringing or misappropriating any intellectual property of either Company, and (after diligent inquiry) (ii) there have been, and are, no claims asserted against either Company or against any customer of either Company, related to any product or service of either Company.

3.16 CONFIDENTIAL INFORMATION. Each of the Companies has taken reasonable steps to protect its rights in its confidential information and trade secrets or any trade secrets or confidential information of third parties provided to either (or both) of Companies and, without limiting the foregoing, each of the Companies has and enforces a policy requiring each employee and contractor with access to any intellectual property of either of them to execute a proprietary information/confidentiality agreement substantially in such Company's standard form and all current and former employees and contractors of either (or both) of the Companies have executed such an agreement ("Trade Secret Agreement"). Neither of the Companies nor (to the knowledge of Mandler and/or either Company), any employees or consultants of either of the Companies, have caused any of the trade secrets of such Company to become part of the public knowledge or literature, nor has either Company or any of such Company's employees or consultants permitted any such trade secrets to be used, divulged or appropriated for the benefit of Persons to the material detriment of either Company.

3.17 COMPLIANCE WITH LAW. Each Company is in compliance with all applicable laws, statutes, orders, ordinances and regulations, whether federal, state, local or foreign. Neither of the Companies, Mandler nor any employee of any of them has received any notice to the effect that, or otherwise has been advised that, either Company is not in compliance with any of such laws, statutes, orders, ordinances or regulations.

3.18 CONTRACTS. SCHEDULE 2.1(c) contains a true and complete list of each of all written or oral contracts, agreements or other arrangements to which Mandler and/or either Company is a party and by which the Mobile Business and the Purchased Assets are bound or affected (and, to the extent oral, accurately describes the terms of such contracts, agreements and commitments). Each Assumed Contract is in full force and effect and constitutes a legal, valid and binding agreement, enforceable in accordance with its terms, of each party thereto; and each Company which is a party thereto has performed all of its required obligations under, and is not, in any respect, in violation or breach of or default under, either with the lapse of time, giving or notice or both, any such contract, agreement or commitment. The other parties to any such contract, agreement or commitment are not in violation or breach of or default under, either with the lapse of time, giving of notice or both, any such contract, agreement or commitment. Neither Mandler nor any the present or former employees, officers or directors of either Company is a party to any oral or written contract or agreement prohibiting any of them from freely competing with other parties or engaging in the Mobile Business as now operated.

3.19 [OMITTED].

3.20 INVENTORY. The inventory of each Company is in good and merchantable condition, and suitable and usable at its carrying value in the Ordinary Course of Business for the purposes for which intended. There is no material adverse condition affecting the supply of materials available to either Company. All inventories used in or relating to the conduct of the Mobile Business are owned by Nuclear Imaging Systems, Inc. free and clear of any Encumbrances. To the knowledge of Mandler and each Company, no supplier of either Company is in violation of any federal, state, local or foreign law, ordinance, regulation or order, which violation has a Material Adverse Effect on such supplier's ability to produce or supply the Companies with any product necessary for the operations of the Mobile Business.

3.21 [OMITTED].

3.22 PLANTS, BUILDINGS, STRUCTURES, FACILITIES AND EQUIPMENT. Except as set forth in Section 3.21 of the Disclosure Schedule, (a) all plants, buildings, structures, facilities and equipment used by either Company in the conduct of the Mobile Business are structurally sound with no known material defects and are in good operating condition and repair (subject to normal wear and tear) so as to permit the operation of the Mobile Business as presently conducted; (b) no such plant, building, structure, facility or equipment is in need of maintenance or repairs except for ordinary, routine maintenance and repairs which are not material in nature or cost; and (c) with respect to each plant, building, structure, facility or item of equipment, neither Company has received notification that it is in violation, in any material respect, of any applicable building, zoning, subdivision, fire protection, health or other law, order, ordinance or regulation and no such violation exists.

3.23 CUSTOMER LISTS AND ACCOUNTS. SCHEDULE 2.1(b) contain a true and correct list (the "Customer Lists and Accounts") of both Companies' customers and accounts during the 1999 fiscal year and the eight (8) month period ended August 31, 2000 relating to the Mobile Business. Except as set forth in the Disclosure Schedule, since December 31, 1999, no single customer or group of affiliated customers contributing more than $5,000 per annum to the gross revenues of the Mobile Business has stopped doing business with the Companies, and to the knowledge of Mandler and each Company (after diligent inquiry), no such customer has an intention to discontinue doing business or reduce the level of gross revenues from that in fiscal years 1999 with the Mobile Business.

3.24 RELATIONSHIPS WITH SUPPLIERS AND LICENSORS. No current supplier to either Company has notified either Mandler or either Company of an intention to terminate or substantially alter its existing business relationship with the Companies, nor has any licensor under a license agreement with either Company, notified Mandler and/or either Company of an intention to terminate or substantially alter either Company's rights under such license.

3.25 INSURANCE. Set forth in SECTION 3.25 of the Disclosure Schedule is a complete and accurate list of all primary, excess and umbrella policies, bonds and other forms of insurance currently owned or held by or on behalf of and/or providing insurance coverage to either Company or the Purchased Assets (or any of either Company's directors, officers, salespersons, agents or employees), including the following information for each such policy: type(s) of insurance coverage provided; name of insurer; effective dates; policy number; per occurrence and annual aggregate deductibles or self-insured retentions; per occurrence and

annual aggregate limits of liability and the extent, if any, to which the limits of liability have been exhausted. All policies set forth on the Disclosure Schedule are in full force and effect, and with respect to such policies, all premiums currently payable or previously due have been paid, and no notice of cancellation or termination has been received with respect to any such policy. All such policies are sufficient for compliance with all requirements of law and all agreements to which either Company is a party or otherwise bound, and are valid, outstanding, collectible and enforceable policies and, to the knowledge of Mandler and each Company (after diligent inquiry), provide adequate insurance coverage for the Companies, the Mobile Business and the Purchased Assets and will remain in full force and effect through the respective dates set forth in the Disclosure Schedule. None of such policies contains a provision that would permit the termination, limitation, lapse, exclusion or change in the terms of coverage of such policy (including, without limitation, a change in the limits of liability) by reason of the consummation of the transactions contemplated by this Agreement or the other Acquisition Documents. Complete and accurate copies of all such policies and related documentation have previously been provided to the Purchaser.

3.26 LABOR AND EMPLOYMENT RELATIONS. To the best of the knowledge of Mandler and each Company (after diligent inquiry), no officer, executive or other employees of either Company has expressed any intention NOT to become an employee of Purchaser if Purchaser offers such officer, executive or employee employment. There have not been any material labor problems and/or work stoppages involving either Company or its respective predecessors or any application filed by a union or employee thereof with the National Labor Relations Board ("NLRB") or similar state, local or foreign agency; or any complaint filed with the NLRB and to the knowledge of Mandler and each Company, no work stoppage has been threatened or is planned. Except as set forth on the Disclosure Schedule, there is no union with which any employees of either Company is affiliated.

3.27 CERTAIN EMPLOYEES. Set forth in SECTION 3.27 of the Disclosure Schedule is a list of the names of each Company's employees and consultants as of the date hereof involved in the management and operation of the Mobile Business, together with the title or job classification of each such person and the total compensation (with wages and bonuses, if any, separately detailed) paid in 1999 (if applicable) and the current rate of pay for each such person on

the date of this Agreement. Except as set forth in SECTION 3.27 of the Disclosure Schedule, none of such persons has an employment agreement or understanding, whether oral or written, with either Company which is not terminable on notice by the applicable Company without cost or other liability to such Company. Furthermore, each Company acknowledges and agrees that to the extent Purchaser makes any offers of employment to any of the persons listed in SECTION 3.27 and such employee accepts such offer, the employee shall be deemed to have resigned effective on the Closing Date or, if later, the date upon which employment is accepted by the employee, and all damages or other claims by the applicable Company against such person relating to the cessation of employment by the employee with such Company shall be deemed waived by the Companies. In addition, each Company as may be applicable shall cooperate in transitioning such employee to the employment of Purchaser. In no event shall Purchaser assume any obligation or Liability owing by either Company or Mandler (or MMC) to any employee employed by Purchaser (or not employed by Purchaser) except as may be explicitly set forth in a final employment agreement (if any) between Purchaser and such employee.

3.28 ABSENCE OF CERTAIN DEVELOPMENTS. Since the end of the period covered by the Interim Financial Statements, except as set forth in SECTION 3.28 of the Disclosure Schedule, neither Company has:

(a) sold, leased, subleased, assigned or transferred any of Purchased Assets, except in the Ordinary Course of Business, or cancelled any debts or claims;

(b) made any changes in any employee compensation, severance or termination agreement, commitment or transaction other than routine salary increases consistent with past practice or offer employment to any individuals with an annual compensation, including salary, cash, bonuses and commissions, in excess of Ten Thousand Dollars ($10,000);

(c) entered into any transaction or operated the Mobile Business, not in the Ordinary Course of Business;

(d) made any changes in its accounting methods or practices or ceased making accruals for taxes, obsolete inventory, vacation and other customary accruals;

(e) caused to be made any reevaluation of any of its Assets and Properties;

(f) caused to be entered into any amendment or termination of any lease, customer or supplier contract or other material contract or agreement or permit or license to which it is a party;

(g) made any material change in any of its business policies, including, without limitation, advertising, distributing, marketing, pricing, purchasing, personnel, sales, returns, budget or product acquisition or sale policies;

(h) terminated or failed to renew, or received any written threat (that was not subsequently withdrawn) to terminate or fail to renew, any contract or other agreement that is or was material to the Mobile Business or its financial condition;

(i) permitted to occur or be made any other event or condition of any character which has had a Material Adverse Effect on it;

(j) waived any rights material to its financial or business condition;

(k) made any illegal payment or rebates; or

(l) entered into any agreement to do any of the foregoing.

3.29 PERMITS. SECTION 3.29 of the Disclosure Schedule contains a true and complete list of all Permits used in and material, individually or in the aggregate, to the Mobile Business or the Purchased Assets and all Radiation Materials Licenses. All such Permits and Radiation Materials Licenses are currently effective and valid and have been validly issued and are freely transferable to Purchaser at the Closing. No additional Permits or Radiation Materials Licenses are necessary to enable the conduct of the Mobile Business in compliance with all applicable federal, state and local laws. Neither the execution, delivery or performance of this

Agreement nor the mere passage of time (except as specifically noted in SECTION

3.29 of the Disclosure Schedule) will have any effect on the continued validity or sufficiency of the Permits or Radiation Materials Licenses, nor will any additional Permits or Radiation Materials Licenses be required by virtue of the execution, delivery or performance of this Agreement to enable the Companies to conduct the Mobile Business as now operated. To the knowledge of Mandler and each of the Companies (after diligent inquiry), there is no pending Action or Proceeding by any Governmental or Regulatory Authority which could affect the Permits or their sufficiency for the current conduct of the Mobile Business or of the conduct of the Mobile Business after the Closing. Each of the Companies has provided Purchaser with true and complete copies of all Permits and Radiation Materials Licenses listed in SECTION 3.29 of the Disclosure Schedule.

3.30 BROKERS. Neither Mandler nor either of the Companies has retained any broker in connection with the transactions contemplated hereunder. Purchaser has, and will have, no obligation to pay any broker's, finder's, investment banker's, financial advisor's or similar fee in connection with this Agreement or the transactions contemplated hereby (or by any of the Acquisition Documents) by reason of any action taken by or on behalf of Mandler or either Company.

3.31 PERFORMANCE OF ASSUMED CONTRACTS. With respect to the Assumed Contracts, after the Closing, Purchaser shall be able to perform under such Assumed Contracts in a manner similar to that which the Companies performed during the ninety (90) day period prior to the Closing without obtaining any license or permit.

3.32 MATERIAL MISSTATEMENTS AND OMISSIONS. The statements, representations and warranties of the Companies contained in this Agreement (including the exhibits and schedules hereto) and in each document, statement, certificate or exhibit furnished or to be furnished by or on behalf of Mandler and/or each of the Companies pursuant hereto, or in connection with the transactions contemplated hereby, taken together, do not contain and will not contain any untrue statement of a material fact and do not or will not omit to state a material fact necessary to make the statements or facts contained herein or therein, in light of the circumstances made, not misleading.

ARTICLE IV.
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to the Companies as of the Closing as follows:

4.1 ORGANIZATION OF PURCHASER. Purchaser is a corporation duly incorporated, validly existing, and in good standing under the laws of the State of Delaware. Purchaser is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required except for any jurisdiction where failure so to qualify would not have a Material Adverse Effect upon Purchaser. Purchaser has full power and authority, and holds all permits and authorizations necessary, to carry on the business in which it is engaged and to own and use the properties owned and used by it except where the failure to have such power and authority or to hold such license, permit or authorization would not have a Material Adverse Effect on Purchaser.

4.2 AUTHORITY OF PURCHASER. Purchaser has all necessary corporate power and corporate authority and has taken all corporate actions necessary to enter into this Agreement, to consummate the transactions contemplated hereby and to perform its obligations hereunder and no other proceedings on the part of Purchaser are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Purchaser and constitutes a legal, valid and binding obligation of Purchaser enforceable against Purchaser in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

ARTICLE V.
COVENANTS OF THE COMPANIES

The Companies and each of them covenants and agrees as follows:

5.1 MAINTENANCE OF BUSINESS PRIOR TO CLOSING.

(a) Except as otherwise contemplated by this Agreement, during the period from March 31, 2000 to the Closing Date, each Company has conducted and will continue to conduct the Mobile Business and operations in accordance with its Ordinary Course of Business and seek to preserve intact its respective business organizations and seek to preserve its respective current relationships with the customers and other persons with whom each (or both) has business relations to the extent consistent with their Ordinary Course of

Business. Without limiting the generality of the foregoing and, except as otherwise expressly provided in this Agreement, prior to the Closing Date, without the prior written consent of Purchaser, neither Company will:

(i) sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of any Purchased Assets or permit any Encumbrance on any Purchased Assets;

(ii) permit any insurance (or reinsurance) policies to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies with similarly rated insurance companies providing coverage equal to or greater than coverage remaining under those cancelled, terminated or lapsed are in full force and effect;

(iii) make any changes to the accounting methods, principles or practices applicable to either Company, except as required by GAAP;

(iv) permit any damage, destruction or casualty loss, whether covered by insurance or not, material to (A) either Company taken as a whole, (B) any Real Property used by either Company in the conduct of the Mobile Business or (C) to any Purchased Assets;

(v) through negotiation or otherwise, make any commitment or incur any Liability with respect to any labor organization;

(vi) make any capital expenditure or commitment or additions to the Purchased Assets;

(vii) enter into or amend any other agreements, licenses, commitments or transactions, except (A) agreements, commitments or transactions made in the Ordinary Course of Business in an amount not to exceed $5,000 in the aggregate or (B) operating leases in an amount not to exceed in the aggregate $5,000 per month on a cumulative basis;

(viii) make any change to its Certificate (or Articles) of Incorporation, bylaws or other organizational documents;

(ix) fail to perform in a timely manner any of its obligations under the Assumed Contracts;

(x) take any other action which would result in a Material Adverse Effect on either Company; or

(xi) agree, whether in writing or orally, whether formally or informally, to engage in any of the actions described in clauses (i) through (x) of this SECTION 5.1.

5.2 INVESTIGATION BY PURCHASER. Each Company shall allow Purchaser or its authorized representatives, at Purchaser's own expense during regular business hours, or otherwise with the consent of the applicable Company (which consent shall not be unreasonably withheld), to interview employees of the Companies and to make such inspection of each Company and to inspect (and, if applicable, make copies of) Books and Records, plants, offices, warehouses and other facilities of each Company as requested by Purchaser or its authorized representatives and reasonably necessary for or reasonably related to the Purchased Assets or the operation of the Mobile Business, including historical financial information, concerning the Mobile Business.

5.3 CONSENTS. As soon as practicable after execution of this Agreement, the Companies will commence and pursue all reasonable action required hereunder or under applicable law to (a) obtain all necessary or appropriate approvals of the Bankruptcy Court, (b) obtain all permits, consents, approvals and agreements of third persons, and (c) give all notices and make all filings in each case as may be necessary to authorize, approve or permit the full and complete consummation of the transactions contemplated hereby (and by the other Acquisition Documents) by the Closing Date.

5.4 NOTIFICATION OF CERTAIN MATTERS. Each of the parties (and Mandler, as indicated by his signature below) shall give prompt notice to the other party, of (i) the discovery of a fact or facts of which the notifying party has actual knowledge which cause it to conclude that any of the representations, warranties or statements made by it or in an any exhibit, schedule or other document delivered pursuant to this Agreement, may be false or misleading or omission of any facts necessary in order to make such representations, warranties or statements not false or misleading; (ii) the occurrence, or failure to occur, of any event which occurrence or failure would be likely to cause any representation or warranty made by them in this Agreement to be untrue or inaccurate any time from the date hereof to the Closing Date; and (iii) any failure of the notifying party to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder. Each party hereto shall use all reasonable efforts to remedy any failure on its or his part to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder. During the period from the date of this Agreement to the Closing Date, each Company agrees (and Mandler agrees as indicated by his signature below) to promptly notify Purchaser of any material change in, or outside of, the normal course of business or operations of either Company and of any Governmental or Regulatory Authority complaints, investigative hearings, or the institution, threat (to the extent Mandler and either Company have or should have knowledge of such threat) or settlement of litigation, in each case involving an amount in excess of $5,000 and relating to either Company, and shall keep Purchaser fully informed in reasonable detail of such events. Neither Company shall enter into any settlements over $5,000 in connection with any such litigation without the prior written consent of Purchaser.

5.5 BEST EFFORTS. Subject to the terms and conditions of this Agreement, each of the parties hereto will use its best efforts to take, or cause to be taken, all action, or to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including, without limitation, obtaining all consents and approvals of all Persons and Governmental or Regulatory Authorities and removing any injunctions or other impairments or delays or otherwise which are necessary to the consummation of the transactions contemplated by this Agreement.

5.6 FILINGS. Each of the parties hereto will use its best efforts to make or cause to be made all such filings and submissions as may be required under applicable laws and regulations for the consummation of the transactions contemplated by this Agreement. Each of the Companies and Purchaser will coordinate and cooperate with one another in exchanging such information and provide each other such assistance as any other party may reasonably request in connection with the foregoing.

5.7 PUBLIC ANNOUNCEMENTS. Except as required by applicable law, prior to the Closing, neither Company shall issue or cause the publication of any press release or otherwise make any public statement with respect to the transactions contemplated hereby without the prior written consent of Purchaser.

5.8 EMPLOYEE MATTERS. The parties acknowledge and affirm their intention that Purchaser shall not assume any liabilities or obligations of either Company to any current or former employee of either Company. Purchaser shall not have any liability or obligation to or in

respect of any employee or agent of either Company, including but not limited to any liability or obligation (i) to employ or engage any such employee or agent, (ii) arising from such employee or agent's dismissal by either Company or any notice and/or payment in lieu of notice required by applicable law in connection with such dismissal, or (iii) in respect of any compensation, tenure, seniority, benefit, or welfare plan or arrangement of any kind.

ARTICLE VI.
CONDITIONS TO THE OBLIGATIONS OF PURCHASER

It shall be a condition precedent to each and every obligation of Purchaser hereunder, that each of the following shall and remain satisfied:

6.1 DOCUMENTS. The following shall have been delivered to Purchaser in form and substance satisfactory to Purchaser:

(a) this Agreement, duly executed by both Companies;

(b) the "Maintenance Escrow Agreement" in the form of EXHIBIT A attached hereto, duly executed by both Companies;

(c) the "Equipment Lease Agreement" substantially in the form of EXHIBIT B attached hereto, duly executed by Nuclear Imaging Systems, Inc.;

(d) a "Radiation Safety Officer Services Agreement" for (and duly executed by) each of the Radiation Safety Officers in substantially the form of EXHIBIT I attached hereto;

(e) a certificate of the Secretary of each of the Companies substantially in the form of EXHIBIT H attached hereto, certifying as of the Closing Date (A) a true and complete copy of the organizational documents of the applicable Company certified as of a recent date by the Secretary of State of Pennsylvania, (B) a true and complete copy of the resolutions of the board of directors of each Company and the resolutions of the shareholders of each Company, each authorizing the execution, delivery and performance of this Agreement by the applicable Company and the consummation of the transactions contemplated hereby (C) certificates of good standing of each Company in the state of its incorporation and all states where it is qualified to do business, and (D) incumbency matters;

(f) consents to assignment for such of the Assumed Contracts as either (i) have been obtained, or (ii) are not subject to an assumption and assignment approved by the Bankruptcy Court Order;

(g) an agreement by the lessor of Lease No. 2 to the replacement of the existing Lease No. 2 with a month-to-month lease on the same terms and rental rate as the existing lease, but in favor of Purchaser and on a month-to-month basis, subject to termination on 30-days' notice, all as more particularly described in SECTION 2.10(b) above, and otherwise in form and substance satisfactory to Purchaser, unless the applicable Company assumes and assigns Lease No. 2 to Purchaser after having used its best efforts to obtain the agreement to the replacement of Lease No. 2;

(h) documentation evidencing transfer of all Radiation Materials Licenses set forth in SCHEDULE 2.1(D) attached hereto;

(i) documentation evidencing transfer of New Jersey's biohazardous waste permit;

(j) an Agreement to provide services to Purchaser, substantially in the form of EXHIBIT J attached hereto (the "MMC Services Agreement"), duly executed by MMC;

(k) a "Non-Competition Agreement" by and between Purchaser and Jeffery Mandler, substantially in the form of EXHIBIT E attached hereto (the "Non-Competition Agreement"), duly executed by Jeffery Mandler;

(l) an "Indemnity Agreement" by Mandler in favor of Purchaser in the form of EXHIBIT G attached hereto; and

(m) a "Consulting Agreement" executed by Mandler in substantially the form of EXHIBIT L attached hereto.

6.2 BANKRUPTCY COURT ORDER. The Bankruptcy Court shall have entered the Bankruptcy Court Order and such order shall have become final and non-appealable without any notice of appeal having been filed and which shall be in all respects in form and substance satisfactory to Purchaser and which shall approve:

(a) the sale, transfer and assignment to Purchaser of all the Purchased Assets (including, without limitation, the Customer Lists and Accounts), free and clear of all liens, claims and encumbrances (including all Encumbrances and all adverse claims of any kind whatsoever including for any taxes payable on account of the sale of the Purchased Assets and/or for which Purchaser might otherwise by required to withhold any portion of the Purchase Price for the Purchased Assets) with all such liens, claims and encumbrances to attach to the proceeds of the sale, transfer and assignment to Purchaser;

(b) the assumption by the applicable Company of all the Assumed Contracts (and any other executory contracts or unexpired leases which constitute part of the Purchased Assets) and the assignment thereof effective on the Closing Date to Purchaser, free and clear of liens, claims Encumbrances, adverse claims and rights of setoff;

(c) the assumption and assignment of Lease No. 1;

(d) execution and performance of a lease that replaces Lease No. 2 or, alternatively, the assumption and assignment of Lease No. 2 if the applicable Company's best efforts to obtain the agreement referred to herein and in SECTION 2.10(b) fails;

(e) the usage by Purchaser of 1/12 of the premises

subject to Lease No. 3 free of additional charge;

(f) the acquisition by Purchaser of the Permits, the Radiation Materials Licenses, the Mobile Business Records, and all pre-paid expenses and deposits relating to the Mobile Business, in each case, free and clear of liens, claims Encumbrances, adverse claims and rights of setoff;

(g) the Equipment Lease Agreement; and

(h) all other Acquisition Documents duly executed by the applicable Company or other party (other than Purchaser) which is a party thereto.

6.3 REPRESENTATIONS, WARRANTIES AND COVENANTS. All representations and warranties of each Company contained in this Agreement shall be true and correct on and as of the Closing Date and Mandler and each Company shall have performed all agreements and covenants required to be performed by them prior to or on the Closing Date under the Acquisition Documents to which each is a party.

6.4 NO ACTIONS OR PROCEEDINGS. No Actions or Proceedings shall have been instituted or threatened which question the validity or legality of the transactions contemplated hereby or by the other Acquisition Documents.

6.5 MATERIAL ADVERSE EFFECT. Mandler and each Company shall not have acted or caused either Company or any Person to have acted in any manner which has created or could reasonably create any material adverse change, or any event or development which, individually or together with other such events, could reasonably be expected to result in a Material Adverse Effect on the Mobile Business or the Purchased Assets.

6.6 CONSENTS. All court orders, permits, authorizations, consents, approvals and waivers from third parties and Governmental or Regulatory Authorities and other Persons necessary or appropriate (as determined by Purchaser in its sole discretion) to permit the applicable Company to perform its obligations hereunder (or under the other Acquisition Documents) and to consummate the transactions contemplated hereby or by the other Acquisition Documents by either Company or Mandler shall have been obtained, including without limitation approvals required from the Nuclear Regulatory Commission, all such approvals to be in form and substance acceptable to Purchaser.

ARTICLE VII.
MISCELLANEOUS

7.1 NOTICES. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally against written receipt or by facsimile transmission with answer back confirmation or mailed (postage prepaid by certified or registered mail, return receipt requested) or by overnight courier to the parties at the following addresses or facsimile numbers:

IF TO EITHER COMPANY, TO:

Nuclear Imaging Systems, Inc.
The Mark Building
3223 Phoenixville Pike, Suite C
Malvern, PA 19355
Facsimile No: (610) 296-1176
Attention: Jeffery Mandler

IF TO PURCHASER, TO:

Digirad Imaging Systems, Inc.
9350 Trade Place
San Diego, CA 92126
Facsimile No: (858) 549-7714
Attention: Chief Executive Officer

WITH COPIES TO:

Brobeck, Phleger & Harrison LLP
12390 El Camino Real
San Diego, CA 92130
Facsimile No.: (858) 720-2555
Attention: Maria K. Pum, Esq.

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this SECTION 7.1, be deemed given upon

delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this SECTION 7.1, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this SECTION 7.1, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

7.2 ENTIRE AGREEMENT. This Agreement (and all Exhibits and Schedules attached hereto, all other documents delivered in connection herewith) supersedes all prior discussions and agreements among the parties with respect to the subject matter hereof and contains the sole and entire agreement among the parties hereto with respect thereto.

7.3 WAIVER. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. No waiver by any party hereto of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by law or otherwise afforded, will be cumulative and not alternative.

7.4 AMENDMENT. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

7.5 NO THIRD PARTY BENEFICIARY. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and their respective successors or permitted assigns, and it is not the intention of the parties to confer third-party beneficiary rights upon any other Person other than any Person.

7.6 NO ASSIGNMENT; BINDING EFFECT. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by any party hereto without the prior written consent of the other parties hereto and any attempt to do so will be void. This Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns.

7.7 HEADINGS. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

7.8 SEVERABILITY. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (iii) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (iv) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and mutually acceptable to the parties herein.

7.9 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts executed and performed in such State, without giving effect to conflicts of laws principles.

7.10 ARBITRATION AND VENUE. Any controversy or claim arising out of or relating to this Agreement or the making, performance or interpretation thereof shall be submitted to arbitration in San Diego, California, pursuant to the rules and procedures of the American Arbitration Association before a panel of three arbitrators. The ruling of the arbitrator shall be final, and judgment thereon may be entered in any court having jurisdiction. If any question is submitted to a court of law for resolution, then the Superior Court of the County of San Diego or the United States District Court having jurisdiction in the County of San Diego shall be the exclusive court of competent jurisdiction for the resolution of such question. Each party will bear one half of the cost of the arbitration filing and hearing fees, and the cost of the arbitrator. Each party will bear its own attorneys' fees, unless otherwise decided by the arbitrator. The parties understand and agree that the arbitration shall be instead of any civil litigation and that the arbitrator's decision shall be final and binding to the fullest extent permitted by law and enforceable by any court having jurisdiction thereof. Each party shall be entitled to pre-hearing

discovery as provided in California Code of Civil Procedure Section 1283.05

7.11 CONSENT TO JURISDICTION AND FORUM SELECTION. The parties hereto agree that all actions or proceedings arising in connection with this Agreement shall be initiated and tried exclusively in the State and Federal courts located in the County of San Diego, State of California. The aforementioned choice of venue is intended by the parties to be mandatory and not permissive in nature, thereby precluding the possibility of litigation between the parties with respect to or arising out of this Agreement in any jurisdiction other than that specified in this SECTION 7.11. Each party hereby waives any right it may have to assert the doctrine of FORUM NON CONVENIENS or similar doctrine or to object to venue with respect to any proceeding brought in accordance with this paragraph, and stipulates that the State and Federal courts located in the County of San Diego, State of California shall have in personam jurisdiction and venue over each of them for the purposes of litigating any dispute, controversy or proceeding arising out of or related to this Agreement. Each party hereby authorizes and accepts service of process sufficient for personal jurisdiction in any action against it as contemplated by this SECTION 7.11 by registered or certified mail, return receipt requested, postage prepaid, to its address for the giving of notices as set forth in this Agreement, or in the manner set forth in SECTION 7.1 of this Agreement for the giving of notice. Any final judgment rendered against a party in any action or proceeding shall be conclusive as to the subject of such final judgment and may be enforced in other jurisdictions in any manner provided by law.

7.12 EXPENSE. Except as otherwise provided in this Agreement, each Company and Purchaser shall pay the expenses and costs of such Company and Purchaser, respectively, incidental to the preparation of this Agreement and to the consummation of the transactions contemplated hereby.

7.13 CONSTRUCTION. No provision of this Agreement shall be construed in favor of or against any party on the ground that such party or its counsel drafted the provision. Any remedies provided for herein are not exclusive of any other lawful remedies which may be available to either party. This Agreement shall at all times be construed so as to carry out the purposes stated herein.

7.14 COUNTERPARTS. This Agreement may be executed in any number of counterparts and by facsimile, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

7.15 FURTHER ASSURANCES. In case at any time after the Closing any further action is necessary or desirable to carry out the purposes of this Agreement, each of the parties will take such further action (including the execution and delivery of such further instruments and documents) as the other party reasonably may request, all the sole cost and expense of the requesting party (unless the requesting party is entitled to indemnification therefor under this ARTICLE VII).

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto, or their duly authorized officer, as of the date first above written.

DIGIRAD IMAGING SYSTEMS, INC.,
a Delaware corporation

By:/S/ SCOTT HUENNEKENS

Name: SCOTT HUENNEKENS

Title: PRESIDENT & CEO

NUCLEAR IMAGING SYSTEMS, INC.,
a Pennsylvania corporation

By:/S/ JEFFREY MANDLER

Name: JEFFREY MANDLER

Title: PRESIDENT

CARDIOVASCULAR CONCEPTS, P.C.,
a Pennsylvania professional corporation

By: /S/ JEFFREY MANDLER

Name: JEFFREY MANDLER

Title: PRESIDENT

By executing where indicated below, the undersigned hereby makes to Purchaser each of the representations and warranties set forth in ARTICLE III of this Agreement, all of which are prefaced by words to the effect that "by executing where indicated below, Mandler represents and warrants to Purchaser that . . ." In addition, the undersigned acknowledges and agrees to be bound by the provisions of SECTION 5.4 above and any other provision of this Agreement referring to Mandler's signature below. By executing where indicated below, the undersigned further acknowledges and agrees that he is not a party to this agreement, nor is he a third party beneficiary of this Agreement.

Date: _____

/S/ JEFFERY MANDLER
JEFFERY MANDLER

SCHEDULE 2.1(a)

EQUIPMENT, LEASEHOLD IMPROVEMENTS, HARDWARE,
SOFTWARE & OTHER OPERATING ASSETS USED IN THE MOBILE BUSINESS

DIGIRAD IMAGING SYSTEMS, INC.
NUCLEAR IMAGING SYSTEMS

PURCHASED ASSETS

INVENTORY #
DESCRIPTION
MODEL #
SERIAL # ----

- ---

-- ---
--- ----

---
1 Executive
Desk 5 Drawer

----- -----

----- -----

--- 2 GE 3
Line Phone --

--- ---

---- ---
---- --

- 3 RICOH

2000L Fax Dec 1999 2000L M9099200171 -

---- --------

----- -------
----------- -

-- 4 Apple Macintosh Computer w/Monitor 1993 SG3111J7C2C -

---- --------

----- -------
----------- -

-- 5 Apple Macintosh Keyboard Apple II 5K24906S03N -

---- --------

----- -------
----------- -

-- 6 Cork Bulletin Board -------
----------- -

----- -------

--------- 7 & 8 Marker Boards ------

----- -------

--------- 9 Metal Book Shelf -------
----------- -

----- -------

--------- 10 2 Drawer File Cabinet -----

----- -------

--------- 11

& 12 4 Drawer Small Metal File Cabinets bk/bg ------- ---------- ---------- ---------- ---------- ---------- ---------- ----- ------- ---------- --------- 13 Kenmore Microwave Oven -------- ---------- -- ---------- ---------- ---------- ---------- - ---------- ---- -------- ---------- -------- 14 Laser Writer Select Printer BG3331CV120 - ---------- ---- -------- ---------- ---------- ---------- ----- ------- ---------- - ---------- ---------- -- 15 Folding Table ------- ---------- - ---------- ---------- ---------- ---------- ---------- ----- ------- ---------- --------- 16 RICOH Copy Machine FT4527 51564 ---------- ----- ------- ---------- ---------- ---------- ------ ------ ---------- ---------- ---------- --- 17 & 18 Cork Boards for Van Keys ---------- ----- ------- ---------- ---------- ---------- ------ ------ ---------- ---------- ---------- --- 19 4 - Hot Files (for paper work) ------- ---------- - ---------- ---------- ---------- ---------- ---------- ----- ------- ---------- --------- 20

Secretarial Chair ---

21 GE Small Refrigerator

22-25 5 Shelf Metal Storage Racks (for supplies) ---

26 Rubbermaid 2 Shelf Cart on Wheels ---

27 Sparklett Water Cooler 9513180747 --

- 28 4 Drawer File Cabinet (hot lab area) ---

29 11 Pocket Hot File ---

30 31 32 3 Yellow Hot

Lab Storage Bins --------
---------- --

---------- -

---- --------

-------- 33 &
34 Well
Counter
Ludlum 2200
138688 ------

----- -------

--------- 35
Brown Table
(hot lab
area) -------
---------- -

----- -------

--------- 36
Grey 4 Drawer
Desk (hot lab
area) -------
---------- -

----- -------

--------- 37
& 38 Cork
Boards (hot
lab area) ---

-- ----------

--- ---------
--------- ---

----
39 Brown
Chair -------
---------- -

----- -------

--------- 40
5 Drawer
Brown Desk --

--- ---------

---- --------
---------- --

- 41 AT&T
Phone 715
AS5THA18351MTE

----- -------

------ ------

--- 42 3 Door
White Cabinet
(for storage)

----- -------

------ ------

--- 43 1/2
Cork 1/2
Marker Board

----- -------

------ ------

--- 44 4
Drawer Black
File Cabinet

----- -------

------ ------

INVENTORY #
DESCRIPTION
MODEL #
SERIAL # --

----- -----

--- -------

------- 45
6 Split
Shelf Metal
Storage
Rack ------

- ---------

------- ---

---- 46 &
47 2 Round
Stools (for
tech) -----

-- --------

------- ---

---- 48
Tyco BP
Unit Stand
Alone
89984609 --

----- -----

--- -------

------- 49
Standby
Baumanometer

------- ---

----- -----

-- --------

----
50 Patient
Step Stool
with Handle

------- ---

----- -----

-- --------

----
51 Tyco BP
Unit Stand
Alone
C50050
119935848 -

------ ----

---- ------

- ---------

----
52 Metal
Storage
Rack 6
Shelf (van
supplies) -

------ ----

---- ------

- ---------

----
53 Metal
Storage
Rack 4
Shelf -----

-- --------

------- ---

---- 54
Wells Fargo
Alarm
System
N6119V1 ---

---- ------

-- --------

------- 55
Hoover
Vacuum
Cleaner
Encore
Supreme ---

---- ------

-- --------

------- 56
Patient
Step Stool

------- ---

----- -----

-- --------

----
57 4 Sets
of Privacy
Screens ---

---- ------

-- --------

------- 58
2 Door
Metal
Storage
Closet ----

--- -------

- ---------
--------- -

------ 59
Ansul
Sentry Fire

Extinguisher
NV540140 --

--- ---

--- ---

------- 60
Ansul
Sentry Fire
Extinguisher
NV540132 --

--- ---

--- ---

------- 61
Cork Board
(for
drivers) --

--- ---

--- ---

------- 62
Canon Fax
Machine
B640
UWZ63923 --

--- ---

--- ---

------- 63
Canon
Copier
Machine
PC12
NTF04087 --

--- ---

--- ---

------- 64
Executone
Phone
System (5)
B0045239 --

--- ---

--- ---

70840963 --

----- -----

--- -------

------- 72
Mouse MS28
LC2041015591

------- ---

----- -----

-- --------

----
73 3 Oxygen
Tanks -----

-- --------

------- ---

---- 74 4
Oxygen
Valves ----

--- -------

- ---------
--------- -

------ 75 3
Oxygen
Carts -----

-- --------

------- ---

---- 76
Oxygen Mask

------- ---

----- -----

-- --------

----
77 Monarch
Mark III
Bike ------

- ---------

------- ---

---- 78 2
Burdick
E550 EKG
Machines
10105 10103

------- ---

----- -----

-- --------

----
79 Burdick
Defibrilator
DC200 30533

------- ---

----- -----

-- --------

----
80 IV
Holder ----

--- -------

- ---------
--------- -

------ 81 2
Folding
Tables ----

--- -------

- ---------
--------- -

------ 82 3
Supply
Shelves ---

---- ------

-- --------

------- 83
2 Bio Bins

------- ---

----- -----

-- --------

----
84 8 Drug
Boxes -----

-- --------

------- ---

---- 85 2
Folding
Tables 5
Feet ------

- ---------

------- ---

---- 86
Folding
Table 7
Feet ------

- ---------

------- ---

---- 87 HP
Fax Machine
w/Stand
SG682M31N0

------- ---

----- -----

-- --------

----
88 Desk
Lamp ------

- ---------

------- ---

INVENTORY #
DESCRIPTION
MODEL #
SERIAL # --

----- -----

--- -------

------- 89
5 Trash
Cans ------

- ---------

------- ---

---- 90
Drug
Cabinet ---

---- ------

-- --------

------- 91
6 OS/Chairs

------- ---

----- -----

-- --------

----
92 Stool --

----- -----

--- -------

------- 93
3 Book
Cases -----

-- --------

------- ---

---- 94 3
Desk Chairs

------- ---

----- -----

-- --------

----
95 2 File
Cabinets --

----- -----

--- -------

------- 96
3 Metal
Shelves 6
Foot ------

- ---------

-------- ---

---- 97 2
Phones ----

--- -------

- ---------
--------- -

------ 98
Camera
Table -----

-- --------

------- ---

---- 99
Canon
Copier
Machine
PC11re
NT000545 --

----- -----

--- -------

------- 100
4 Oxygen
Masks -----

-- --------

------- ---

---- 101 3
IV Poles --

----- -----

--- -------

------- 102
Bike ------

- ---------

------- ---

---- 103 2
Hot Lab
Trash Cans

------- ---

----- -----

-- --------

---
104 Spare
Set of
Ramps for
Van -------

-------- --

----- -----

-- 105
Water
Cooler
983847445 -

------ ----

---- ------

- ---------

---
106 Vacuum
Dirt Devil

------- ---

----- -----

-- --------

107
Refrigerator
G95001121 -

------ ----

---- ------

- ---------

---
108 Emerson
Microwave -

------ ----

---- ------

- ---------

----
109 State
Radiation
License -
New Jersey
20443-02 --

----- -----

--- -------

------- 110
State
Radiation
License -
Maryland
MD-31-240-
01 --------

-------- --

----- -----

-- 111
State
Radiation
License -
North
Carolina
001-10-14-1

------- ---

----- -----

-- --------

----
112 State
Radiation
License -
Pennsylvania
PA-0651 ---

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-- --------

------- 113
Mobile
System #1 -
Location PM
see below -

------ ----

---- ------

- ---------

----

114 Mobile System #6 - Location ATN see below -----

115 Mobile System #8 - Location PM see below -

116 Mobile System #9 - Location PM see below -

117 Mobile System #10 - Location MD see below -----

118 Mobile System #11 - Location ATN-ST see below -----

119 Mobile System #12 - Location NC see below -----

--- ---

---- 120
Mobile
System #13
- Location
PM see
below -----

-- ---

--- ---

---- 121
Mobile
System #14
- Location
PM see
below -----

-- ---

--- ---

System #1: Dose Calibrator serial # 71257; Survey Meter serial # 80905; Survey Meter #2 serial # 94494

System #6: Dose Calibrator serial # 71781; Survey Meter serial # 73329; Survey Meter #2 serial # 72857

System #8: Dose Calibrator serial # 71420; Survey Meter serial # 95022; Survey Meter #2 serial # 95155

System #9: Dose Calibrator serial # 70890; Survey Meter serial # 108711 & 106528; Survey Meter #2 serial # N/A

System #10: Dose Calibrator serial # 71728; Survey Meter serial # 103857 & 72028; Survey Meter #2 serial # N/A

System #11: Dose Calibrator serial # 70837; Survey Meter serial # 83489; Survey Meter #2 serial # 92625

System #12 Dose Calibrator serial # 71591; Survey Meter serial # 106588 & 106606; Survey Meter #2 serial # N/A

System #13: Dose Calibrator serial # 71773; Survey Meter serial # 78987; Survey Meter #2 serial # 92978

System #14: Dose Calibrator serial # 71765; Survey Meter serial # 89399 & 99958; Survey Meter #2 serial # N/A

SCHEDULE 2.1(b)

CUSTOMER LISTS AND ACCOUNTS

Schedule 2.1.b
Mobil Customers

NAME STATE

1	Aganwal	MD/Rockville
2	Cardiology Center/Fiutowski	MD/Rockville
3	Greater Annapolis Medical Group/Lauria	MD/Rockville
4	Varkey Mathew	MD/Rockville
5	Varma	MD/Rockville
6	The Heart Center/John Clemente	NJ
7	Menlo Park Medical Group/Buck Warren	NJ
8	Smith, John	NJ
9	Clifford, James R.	NJ
10	Cumberland Med. Assoc./Covnarsky & Garcia	NJ
11	Feitell	NJ
12	Werres	NJ
13	Newport Medical Associates/Dongo & Cabalez	NJ
14	Schmidt-Fletcher/Scarpa	NJ
15	University of Medicine & Dentistry/Salvucci	NJ
16	Alliance Medical Associates/Kahn	NC
17	Masoud	NC
18	Hazelton Cardiology/Bronstein	Penn
19	Internal Medicine Associates/Gitter	NJ
20	Marshall-Rismiller/DeCalli	Penn
21	North Penn Cardiology/Tendler	Penn
22	Physician Care, PC/Tama	Penn
23	Pocono Cardiology Assoc/Fried	Penn
24	Pottsville Internists/Narula	Penn
25	Schuylkill Cardiology/Banning	Penn
26	Shapiro	NJ
27	Coletti	NJ
28	Grossman	NJ
29	Gohle	DE
30	Tullner	MD
31	Alikan	MD
32	Essandoh	MD
33	Garrison	NC
34	Wolk	PA
35	Bikkina	NJ
36	Kelly (Smith office)	NJ
37	Nehzad	NJ
38	Park Avenue/Albuq.	NJ
39	Robinson	MD
40	Carusa	NC
41	Gracko	Penn
42	Amin	Penn

SCHEDULE 2.1(c)

ASSUMED CONTRACTS

All agreements between Company and the customers listed in Schedule 2.1(b) of this Agreement, all leases and permits listed on Schedule 2.1(d), plus the following contracts:

Agreement between Nuclear Imaging Systems, Inc. and Andrew M. Keenan MD evidenced by letter dated September 11, 2000 whereby Dr. Keenan agrees to provide RSO consulting services to the Digirad Corporation.

Any and all agreements (written or oral) to provide RSO consulting services between Nuclear Imaging Systems, Inc. and any of Dr. Joel Raichlen, Dr. Andrew Keenan, and Dr. Shaukat Kahn.

SCHEDULE 2.1(d)

RADIATION MATERIALS LICENSES AND PERMITS

MOBILE LICENSES

STATE

LICENSES
ADDRESSES
RSO -------

----- -----

---- ------

--- -------

Pennsylvania
1) NRC 37-
28453-01
1)2241
Corsons
Lane, Unit
D, Plymouth
Dr. Joel
Raichlen 2)
PA-0651
(will apply
for new
Digirad
Meeting, PA
19462
mobile
license for
PA) 2)
Temporarily
out of
Bethlehem
406
Delaware
Avenue
Bethlehem,
PA 18015 --

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New Jersey
1) NRC 37-
28453-01 1)
222 Schanck
Road, Suite
204, Dr.
Joel
Raichlen 2)
NJ 20443-02
Freehold,
NJ 07728 --

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Maryland 1)
MD 31-240-
01
(Rockville)
1) 15215
Shade Grove
Road,
Rockville,
Dr. Andrew
Keenan MD

20850 -----

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----- -----

----- North
Carolina 1)
NC 001-
1014-01
(Burlington)
1) 2579 P
Eric Lane,
Burlington,
NC Dr.
Shaukat
Kahn 22157

- ---------

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SCHEDULE 2.1(g)

PREPAID EXPENSES AND DEPOSITS RELATING TO MOBILE BUSINESS

PURCHASE PRICE:

PRE-PAID EXPENSES	$
DEPOSITS:	
Rickman Construction - facility lease deposits for 15215 Shady Grove Road, Rockville, MD 20850	$ 4,503.13
Peters Enterprise - security deposit for 2579-P Eric Lane, Piedmont Business Center, Burlington, NC 27215	$ 813.00
Edward Reese - security deposit for 2241 Corsons Lane, Unit D, Plymouth Meeting, PA	$ 1,800.00
TOTAL DEPOSITS	$ 7,116.13
TOTAL PRE-PAID EXPENSES AND DEPOSITS	$ 7,116.13

SCHEDULE 2.2

EXCLUDED ASSETS

LEASED EQUIPMENT

PART I: ASSETS SUBJECT TO EQUIPMENT LEASE AGREEMENT

---- ------

- --------
--------- -
--------- -
-------- --
------ NIS
LOCATION
CHAIR
SERIAL
PICKER
CAMERA
SERIAL #
PICKER
SYSTEM# NIS
SITE
NIS # SITE

-- --------

------- ---
---- ------
-- --------
- ---------
- ---------
-------- 1
Plymouth
Meeting, PA
8 V5124
77572 1
M105 77561

---- ------
- --------
--------- -
--------- -
-------- --
------ 5
Plymouth
Meeting, PA
7 US122
77574 5
MO131 77226

---- ------
- --------
--------- -
--------- -
-------- --
------ 6
Allentown,
PA 5 V5120
77575 6 136
77224 -----
------ ----

------- ---
----- -----
---- ------
---- ------
--- -------
- 8 Ply
Mtg. PA
(Clemente
I) 10 115R
200608 8
149 77227 -

---- ------
- --------
--------- -
--------- -
-------- --
------ 9
Plymouth
Meeting, PA
1 US130
76535 9
M152 77571

SYSTEM#	NIS COMPUTER SERIAL #	PRINTER SERIAL #	DRIVE #1
1	MAC IIFX MITS CP100VA 100776	Infinity 44	- 5 MAC IIFX MITS CP100VA 101098
Syquest 44	- 6 MAC IIFX MIYS CP 110V 100581	Infinity 44	- 8 Quadro 950 MIYS CP 110V 100423
Infinity 44/MO	9	Quadro 950 F32442UT671	MITS CP100VA 100328

Infinity
44/MO -----
------ ----
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----
10 Quadro
950
F3250DGJ671
MITS
CP100VA
101168 Sony
MO 128MA --
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----
11 Quadro
950
F330709R671
MITS CP
110V 100017
Sony
MO128MB ---
-------- --

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----
12 Quadro
950
XB33B34HY671
MITS CP
110V 101156
Sony
MO128MB ---
-------- --

------- ---

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--------- -

----
13 Quadro
950 MITS
CP100VA
Sony
MO128MB ---
-------- --

------- ---

------- ---
--------- -

----
14 Quadro
950 MITS
CP100VA
Sony
MO128MB ---
-------- --

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--------- -

WK 3 MAC IIFX N/A

PART II: REMAINING EXCLUDED ASSETS

YEAR DESCRIPTION VAN # VIN # REG. EXP. INS. EXP. PLATE # TITLE	LOCATION
- Burlington, NC 1994 E350 Ford Spect Van 18 1FDKE37H4RHB00880 7/31/00 3/15/00 ZA48743PA N	----
Burlington, NC 1994 E350 Ford Spect Van 20 1FDKE37HXRHB83585 12/31/99 3/15/00 ZB52584PA N	----
Plymouth Meeting, PA 1994 E350 Ford Spect Van 1 1FDKE37H4RHB74820 12/31/99 3/15/00 ZB14593PA N	----
Plymouth Meeting, PA 1993 E350 Ford Spect Van 11	

1FDKE37H2PHB76112
1/31/00 3/15/00
YY60823PA N ----

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Plymouth
Meeting, PA 1993
E350 Ford Spect
Van 12
1FDKE37H1PHB76103
1/31/00 3/15/00
YY60822PA N ----

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Plymouth
Meeting, PA 1993
E350 Ford Spect
Van 13
1FDKE37H6PHB88439
12/31/99 3/15/00
YZ09163PA N ----

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Plymouth
Meeting, PA 1994
E350 Ford Spect
Van 15
1FDKE37H8RHB00879
4/30/00 3/15/00
YZ37110PA N ----

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Plymouth
Meeting, PA 1993
E350 Ford Spect
Van 22
1FDKE37H4PHB88441
5/30/00 3/15/00
YZ09164PA N ----

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Rockville, MD
1994 E350 Ford
Spect Van 6
1FDKE37H4RHA91954
4/30/00 3/15/00
YZ37111PA N ----

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Rockville, MD

1994 E350 Ford
Spect Van 9
1FDKE37H6RHA21498
7/31/00 3/15/00
ZA48742PA N ----

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Rockville, MD
1993 E350 Ford
Spect Van 14
1FDKE37H7PHA93646
7/31/00 3/15/00
YX39813PA Y-
Title
#46505285801NU -

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SCHEDULE 2.3

ASSUMED LIABILITIES

None.

SCHEDULE 2.7

ALLOCATION OF PURCHASE PRICE

PURCHASE PRICE:

Cash	$ 725,000.00
Less: amounts reserved for reasonable attorneys fees and transaction costs	$ (25,000.00)
Net purchase price	$ 700,000.00

PURCHASE PRICE ALLOCATION:

Equipment, leasehold improvements, hardware, software, other operating assets - Schedule 2.1(a)	$ 55,500.00
Rights, title and interest in customer contracts and agreements - Schedule 2.1(c)	$ 637,383.87
Prepaid expenses and deposits - Schedule 2.1(g)	$ 7,116.13
Total	$ 700,000.00

EXHIBIT A

MAINTENANCE ESCROW AGREEMENT

THIS MAINTENANCE ESCROW AGREEMENT dated as of this 29th day of September 2000 (the "Agreement") is entered into by and among NUCLEAR IMAGING SYSTEMS, INC. ("NIS"), DIGIRAD IMAGING SYSTEMS, INC. ("Purchaser"), DVI FINANCIAL SERVICES, INC. ("Assignee") and U.S. TRUST COMPANY, NATIONAL ASSOCIATION, ("Escrow Agent") (collectively, "Parties").

WHEREAS, NIS is indebted to Assignee on account of certain indebtedness owed by NIS to Assignee, which indebtedness is secured by certain assets of NIS;

WHEREAS, NIS, an affiliate of NIS, Cardiovascular Concepts, P.C. ("CVC"), and Purchaser are parties to an Asset Purchase Agreement (the "A/P Agreement") pursuant to which Purchaser agreed to purchase and NIS (and CVC) agreed to sell to Purchaser certain assets comprising the "Mobile Business" of NIS and/or CVC, some or all of which assets are encumbered by a lien in favor of Assignee;

WHEREAS, out of the agreed upon purchase price of $725,000, the sum of $100,000 was to be and hereby is deposited into escrow with Escrow Agent subject to a first priority lien and security interest in favor of Purchaser to secure the maintenance obligations of NIS owed to Purchaser, and subject the liens and security interests of Assignee which are subordinate to those in favor of Purchaser, and subject to the terms this Agreement in order to fund certain maintenance obligations of NIS with respect to certain equipment encumbered by a lien in favor of Assignee, but which equipment is being leased to Purchaser, not purchased by Purchaser (the "Leased Equipment") as set forth in an "Equipment Lease Agreement" between NIS and Purchaser which is to be executed concurrently with the A/P Agreement; and

WHEREAS, Escrow Agent has indicated its willingness to act as escrow holder for the compensation set forth in EXHIBIT 1 attached hereto.

NOW, THEREFORE, the Parties agree as follows:

ARTICLE I

1. APPOINTMENT AND ACCEPTANCE. The Purchaser, NIS and Assignee hereby appoint Escrow Agent as escrow agent for the purposes and upon the terms and conditions hereinafter set forth. Escrow Agent hereby accepts such appointment and agrees to act as escrow agent hereunder and to hold, invest and dispose of any funds received by it hereunder in accordance with the terms and conditions hereinafter set forth.

2. OPENING OF ESCROW FUND. On or before the Closing Date defined in the A/P Agreement, NIS will cause to be delivered to Escrow Agent the sum of $100,000 (the "Escrow Fund") to be deposited in a federally insured, interest-bearing account.

3. PURPOSE OF AGREEMENT. The Purchaser, NIS and Assignee represent to Escrow Agent that (a) this Agreement has been executed and the deposit of the Escrow Fund hereunder has been made pursuant to the A/P Agreement for the purpose of providing a fund for the maintenance of the Leased Equipment (which is encumbered by a lien in favor of Assignee) in the event NIS should fail to perform its maintenance obligations under the A/P Agreement and the Equipment Lease Agreement ("Maintenance Claims"), and (b) CVC has no interest in the Escrow Fund.

ARTICLE II

1. DISBURSEMENTS FOR MAINTENANCE. During the term of this Escrow (and subject to paragraphs II.2 and Article VII, below), Escrow Agent shall disburse such sums as are demanded by Purchaser in accordance with the following procedure:

a. If NIS fails to maintain the Leased Equipment as required by the Equipment Lease Agreement, Purchaser shall give telephonic or fax notice of the deficiency in performance of maintenance to both NIS and Assignee, and (if telephonic notice was used) shall immediately send a written confirmation thereof to NIS via facsimile (a "Maintenance Notice").

b. If NIS is not able to give adequate assurance to Purchaser within 24 hours of receipt of the telephonic or written notice

of the maintenance deficiency that Purchaser will cure the deficiency, Purchaser may contract with a third party to provide the necessary maintenance to the Leased Equipment, which contract may either be for a one-time only servicing of the equipment, or may be a contract to provide service for the remainder of the term of the Equipment Lease Agreement, in Purchaser's sole and absolute discretion.

c. Simultaneously with obtaining services from a third party, Purchaser shall (i) send to Escrow Agent a copy of the Maintenance Notice and a copy of the service contract or invoice for repair (if the Leased Equipment was already repaired at the cost of Purchaser), and (ii) send to Assignee and NIS a copy of the service contract or invoice for repair (if the Leased Equipment was already repaired at the cost of Purchaser).

d. Upon receipt of a copy of the service contract or invoice for repair (if the Leased Equipment was already repaired at the cost of Purchaser), Escrow Agent shall (i) promptly reimburse Purchaser for any sums already paid for maintenance by Purchaser using the funds in the Escrow Fund, and (ii) in the event a service contract was entered into, arrange for payments thereunder as and when they are due under the contract.

e. The sole means by which NIS or Assignee may bar release of funds from the Escrow Fund is by obtaining an appropriate court order on not less than 1 Business Day's notice to Purchaser enjoining payment from the Escrow Fund on the basis that either (i) NIS did not breach its maintenance obligation, or (ii) the cost of repair or the maintenance contract terms are unreasonable.

2. EFFECT OF END OF EQUIPMENT LEASE AGREEMENT. Unless directed otherwise by Purchaser or by an order of a court of competent jurisdiction, 30 days after the end of the lease term set forth in the Equipment Lease Agreement, all undisbursed funds remaining in the Escrow Fund (net of sums payable to Escrow Agent as set forth in this Agreement and in EXHIBIT 1) shall be delivered to Assignee at the address provided in this Agreement or at such other address as Assignee may provide to Escrow Agent in writing.

ARTICLE III

The Escrow Agent undertakes to perform only the duties expressly set forth in this document. The Escrow Agent shall not be bound by any waiver, modification, amendment, termination, cancellation or revision of this Escrow Agreement, unless the foregoing is in writing, signed by all the parties to this Escrow Agreement, and the prior consent of the Escrow Agent has been obtained. The Escrow Agent shall not be bound by any assignment of the rights, duties or obligations under this Escrow Agreement by any party unless, the Escrow Agent receives prior written notification of such assignment and the Escrow Agent gives prior written consent to such assignment. The Escrow Agent shall perform any act ordered by a court of competent jurisdiction.

ARTICLE IV

NIS agrees to indemnify the Escrow Agent for, and to hold Escrow Agent harmless, against any and all, fees, expenses, claims, suits, actions, proceedings investigations judgments, arbitration decisions, deficiencies, damages, awards, settlements, reasonable legal fees and expenses of attorney(s) chosen by the Escrow Agent, liabilities and expenses incurred based upon, but not limited to, a mistake of fact or law, act, performance, non-performance, alleged act, alleged omission, actual omission, act or omission based upon the advice of counsel or any other cause committed while performing any and all duties in connection with and under this Escrow Agreement. In addition, except where Escrow Agent is guilty of willful misconduct or negligence, the Escrow Agent shall receive full indemnification protection from:

a. Purchaser when relying upon any certificate, instruction, statement, request, notice,

advice, direction, agreement, instrument, document, signature of Purchaser believed by the Escrow Agent to be genuine, or any assumption by the Escrow Agent that any person purporting to give the Escrow Agent any of the foregoing on behalf of Purchaser in accordance with the provisions herein has been duly authorized to do so; and

b. Assignee when relying upon any certificate, instruction, statement, request, notice, advice, direction, agreement, instrument, document, signature of Assignee believed by the Escrow Agent to be genuine, or any assumption by the Escrow Agent that any person purporting to give the Escrow Agent any of the foregoing on behalf of Assignee in accordance with the provisions herein has been duly authorized to do so.

This Escrow Agreement hereby grants to the Escrow Agent a lien on the Escrow Fund (which lien shall become invalid and unenforceable with respect to any portion of the Escrow Fund wired or delivered to Purchaser which shall receive such funds free and clear of such security interest) to enable the Escrow Agent to secure the aforementioned indemnity.

The Escrow Agent shall be under no duty to institute or defend any type of proceeding which may arise regarding this Escrow Agreement

ARTICLE V

The Escrow Agent may resign and be discharged from the duties and obligations under this agreement at any time by giving no fewer than fifteen (15) days written notice of such resignation to the parties herein, specifying the date when such resignation shall take effect. Thereafter, the Escrow Agent shall have no further obligation, except to hold the Escrow Fund as depository. In the event of such resignation, the parties to this Escrow Agreement agree that they will jointly appoint a banking corporation, trust company, attorney or other qualified person as successor escrow agent within fifteen (15) days of notice of such resignation. The Escrow Agent shall refrain from taking any action until such Escrow Agent has received joint written instructions from the parties herein, designating the successor escrow agent. Upon receipt of such instruction, the Escrow Agent shall, as soon as all fees are received in full, promptly deliver all of the escrowed Documents and the Escrow Funds to such successor escrow agent in accordance with such instructions. Upon receipt of the Escrow Fund, the successor escrow agent shall be bound by all the provisions herein and shall promptly deliver a written instrument to each of the parties detailing the terms in which the successor escrow agent agrees to be bound.

ARTICLE VI

All notices, requests, demands, instructions, certificates, documents or other communications under this Escrow Agreement shall be in writing and shall be given by registered mail with return receipt requested and postage prepaid, by telecopy (or like transmission) or by personal delivery to the parties at the following addresses:

If to ESCROW AGENT:

U.S. Trust Company, a National Association
515 S. Flower Street, Suite 2700
Los Angeles, CA 90071
Facsimile No.: (213) 488-1370
Attention: Deborah Gibbons

If to NIS:

Nuclear Imaging Systems, Inc.
The Mark Building
3223 Phoenixville Pike, Suite C
Malvern, PA 19355
Facsimile No: (610) 296-1176

If to Purchaser:

Digirad Imaging Systems, Inc.
9350 Trade Place
San Diego, CA 92126

Facsimile No: (858) 549-7714
Attention: Chief Executive Officer

ARTICLE VII

The Escrow Agent shall be entitled to compensation from NIS and only NIS, inasmuch as neither Purchaser nor Assignee shall bear any expense nor incur any liability in connection with this Escrow or the Escrow Agreement, for its services under this Escrow Agreement in accordance with the fee schedule and payment procedure described in EXHIBIT 1 attached hereto. These fees are intended to be full compensation for the Escrow Agent's services as contemplated by this Escrow Agreement. However, if (i) the conditions for disbursement of funds under this Escrow Agreement are not fulfilled; (ii) the Escrow Agent renders any material service not contemplated by this Escrow Agreement; (iii) there is any assignment of this Escrow Agreement; (iv) there is any material modification of this Escrow Agreement; (v) any material controversy arises under this Escrow Agreement; (vi) the Escrow Agent is made a party to, or justifiably intervenes in, any litigation pertaining to this Escrow Agreement or the subject matter of this Escrow Agreement, then the Escrow Agent shall be reasonably compensated by NIS for any extraordinary services rendered. The Escrow Agent shall not be required to distribute funds or to terminate this Escrow Agreement prior to receipt of its fees in full.

ARTICLE VIII

The rights of the Escrow Agent and the obligations of and indemnifications provided pursuant to this document shall survive the termination of this Agreement.

ARTICLE IX

Escrow Agent shall be under no duty to institute or defend any type of proceeding which may arise regarding this Escrow Agreement.

ARTICLE X

This Agreement is executed in the State of Pennsylvania and shall be governed and interpreted in accordance with the laws of the State of Pennsylvania.

ARTICLE XI

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. There are no third party beneficiaries of this Agreement. This Agreement is binding on the parties hereto, their executors, administrators, heirs at law, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed as of the date first above mentioned.

DIGIRAD IMAGING SYSTEMS, INC.,
a Delaware corporation

By:

Name:

Title:

DVI FINANCIAL SERVICES, INC.

By:

Name:

Title:

NUCLEAR IMAGING SYSTEMS, INC.,
a Pennsylvania corporation

By:

Name:

Title:

U.S. TRUST COMPANY, NATIONAL ASSOCIATION

By:

Title:

Address:

EXHIBIT B

EQUIPMENT LEASE AGREEMENT

AGREEMENT TO LEASE EQUIPMENT

THIS AGREEMENT TO LEASE EQUIPMENT (this "AGREEMENT") is entered into as of September 29, 2000 by and between DIGIRAD IMAGING SYSTEMS, INC. ("LESSEE"), and NUCLEAR IMAGING SYSTEMS, INC., a Pennsylvania corporation ("LESSOR") based on the following facts and understandings:

WHEREAS, Lessor is a debtor and debtor in possession in chapter 11 case No. 00-19698 (the "Bankruptcy Case") pending in the United States Bankruptcy Court for the Eastern District of Pennsylvania (the "Bankruptcy Court");

WHEREAS, Lessor, as part of its larger business, operates a service that provides mobile delivery of diagnostic cardiac services, diagnostic imaging equipment and related technical services to physicians providing cardiology services (the "Mobile Business");

WHEREAS, Lessee has purchased certain assets of Lessor pertaining to the Mobile Business, on the terms and conditions set forth in an "Asset Purchase Agreement" (the "A/P Agreement") approved by the Bankruptcy Court;

WHEREAS, certain assets not purchased under the A/P Agreement but relating to the Mobile Business is comprised of equipment which is either subject to a lien and security interest in favor of DVI Financial Services, Inc. ("DVI") or subject to a lease under which DVI is the Lessor, and certain of which equipment Lessee desires to lease for a period of time until Lessee can replace such equipment;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

I. THE LEASE

1.1 LEASE OF EQUIPMENT. Set forth on SCHEDULE 1 attached hereto (the "SCHEDULE") is a list of ten (10) "Systems" as identified by a separate line item on SCHEDULE 1. During the "Term" of this Lease (as defined in Section 1.2), Lessor shall be obligated to lease to Lessee and Lessee shall lease from Lessor, the Systems identified on SCHEDULE 1 as System nos. 1, 5, 11, and 12, subject to the terms and conditions set forth herein and subject to Lessor's maintenance obligation which maintenance obligation may be addressed, in part, by the ability of Lessor to substitute any of the other Systems listed on SCHEDULE 1 to replace any of System nos. 1, 5, 11, and/or 12 should one or more of those four Systems require maintenance or repair more efficiently addressed by the substitution of any of System nos. 6, 8, 9, 10, 13, or 14 for a malfunctioning System. Such substitution, and the ability of Lessor to effect such a substitution, shall not affect or increase the rent obligation payable by Lessee hereunder. The Systems leased to Lessee, together with all substitutions, replacements, repairs, parts and attachments, improvements and accessions thereto are referred to as the "EQUIPMENT". Lessor shall at all times retain such legal or equitable rights in the Equipment as it had prior to the execution of this Agreement, it being expressly agreed by both parties that this Agreement and the lease it represents (the "LEASE") is an agreement of lease (and/or sublease) only.

1.2 TERM OF LEASE. The Term of this Lease shall begin on the date when the conditions precedent to the effectiveness hereof (the "Commencement Date") have been satisfied as set forth in Section 1.6 below and

shall continue until November 30, 2000, subject to extension on a week to week , and a System by System basis if on or before the date that is 3 calendar days before the last day of the Term, Lessee sends notice to Lessor via fax or hand delivery that the Lease will be extending the Term as to specified Systems for another weeks, and such extension shall then extend the "Term" to the date specified in the notice as to the indicated System. The term "COMMENCEMENT DATE" shall mean the date upon which all of the following are true: (a) the A/P Agreement

has been approved by the Bankruptcy Court and all conditions precedent to the effectiveness of the A/P Agreement shall have been satisfied, (b) this Agreement has been approved by the Bankruptcy Court, and (c) Lessor has delivered possession of the Equipment to Lessee.

1.3 RENTAL PAYMENTS. Lessee shall pay Lessor Rent at a rate of $500 per week per System included as part of the leased "Equipment" (I.E., four Systems as of the Commencement Date), payable in arrears on October 31, 2000 and November 30, 2000, and thereafter on the last day of each weekly extension, if any. The first payment for the period between the Commencement Date and November 1, 2000 shall be equal to a pro rated rental payment based on $500 per System divided by 7 multiplied by the actual number of days from the Commencement Date to November 1, 2000. All Rent and other amounts payable by Lessee to Lessor hereunder shall be paid to Lessor's designee and assignee, DVI, by check payable to DVI, at the address specified above, or at such other place (or person or entity) as DVI may designate in writing to Lessee from time to time.

1.4 RETURN OF EQUIPMENT. Upon expiration of the Term, Lessee shall immediately return the Equipment to Lessor's designee, which designee shall be DVI unless DVI designates otherwise in writing. In other words, the designation of DVI as the designee for the return of the Equipment may altered only by a writing signed by DVI. Lessee shall bear no expense for the return of the Equipment. Lessee's sole responsibility shall be to make the Equipment available for pick up by DVI or its designee at a mutually convenient time.

1.5 ABATEMENT OF RENT. Notwithstanding the foregoing paragraphs 1.2, 1.3, and 1.4, Lessee may elect at any time during the Term to return individual Systems as identified on Schedule 1 without terminating the Lease or the Term (except as to the individual System) and receive an abatement of the Rent payable to DVI equal to $500 per System returned per week. To make this election for any given individual System, on or before the Monday of the calendar week at the end of which, Lessee intends to return a particular System, Lessee shall notify DVI and Lessor in writing of the election to return a particular identified System and Lessee shall make the System available to DVI for pick up on the following Monday or on such other date as is mutually agreed to by DVI and Lessee. No matter when the designated System is picked up by DVI, however, all obligations of Lessee with respect to such designated System shall cease after the first to occur of (1) the date DVI picks up the System, and (2) the last calendar day of the week which marks the end of the Term for such system due to termination in accordance with this Section 1.5. The abatement of Rent shall be effective as of the Monday after notice in accordance with this Paragraph 1.5 is given.

1.6 CONDITIONS PRECEDENT TO LESSEE'S OBLIGATIONS. It shall be a condition precedent to each and every obligation of Lessee hereunder, that each of the following conditions precedent shall be an remain satisfied (unless waived in writing by Lessee):

(a) The Bankruptcy Court with jurisdiction over the Lessor's bankruptcy case shall have approved the execution and performance by Lessor of this Agreement , of the A/P Agreement and of all the "Acquisition Documents" executed pursuant to the A/P Agreement pursuant to an order or orders that are in form and substance satisfactory to Lessee and which order or orders shall be final and non-appealable (and as to which no appeal has been taken, I.E., a "Final Order");

(b) Lessor shall have executed and delivered this Agreement, the A/P Agreement, and each of the Acquisition Documents to Lessee;

(c) The Maintenance Escrow Agreement (or counterparts thereof) shall have been fully executed by all parties thereto, shall have been approved by the Bankruptcy Court (as one of the Acquisition Documents) by a Final Order, and the Maintenance Escrow shall have been established and funded, in each case to the satisfaction of Lessee;

(d) All Leased Equipment shall have been delivered to Lessee;

(e) All representations and warranties set forth herein shall be true and correct; and

(f) No default or Event of Default by Lessee or any affiliate of Lessee shall have occurred hereunder, under the A/P Agreement, under any Acquisition Document, or under any other agreement or

document executed pursuant to any of them (including the Consulting Agreement signed by Jeffrey Mandler and the "MMC Services Agreement" signed by Medical Management Concepts, Inc.).

II. LESSEE OBLIGATIONS

2.1 RENT; PAYMENTS UNCONDITIONAL. LESSEE'S SOLE PAYMENT OBLIGATION UNDER THIS LEASE IS FOR RENT, INSURANCE (AS PROVIDED IN SECTION 2.6) AND OTHER SPECIFICALLY IDENTIFIED PAYMENT OBLIGATIONS. ALL OTHER COSTS, EXPENSES AND LIABILITIES RELATING TO THE EQUIPMENT, INCLUDING IN RESPECT OF TAXES (IF ANY) AND MAINTENANCE, SHALL BE BORNE SOLELY BY LESSOR. LESSEE'S OBLIGATION TO PAY ALL SUCH RENT AND OTHER SUMS HEREUNDER, AND THE RIGHTS OF LESSOR (OR DVI) IN AND TO SUCH PAYMENTS, SHALL BE ABSOLUTE AND UNCONDITIONAL, AND SHALL NOT BE SUBJECT TO ANY ABATEMENT, REDUCTION, SETOFF, DEFENSE, COUNTERCLAIM, INTERRUPTION, DEFERMENT OR RECOUPMENT, FOR ANY REASON WHATSOEVER.

2.2 USE OF EQUIPMENT. Lessee shall use the Equipment solely in the conduct of its business, in a manner and for the use contemplated by the manufacturer thereof, and in compliance with all Requirements of Law of every Governmental Authority having jurisdiction over the Equipment or Lessee and with the provisions of all policies of insurance carried by Lessee pursuant to Section 2.6.

2.3 DELIVERY; INSTALLATION; RETURN; MAINTENANCE AND REPAIR. Lessor shall be solely responsible, at its own expense, for (a) making the Equipment available to Lessee, and (b) the installation, de-installation, maintenance and repair of the Equipment, such that the Equipment remains in excellent working order and repair in keeping with the standards required by law and all Governmental Authorities, and in keeping with the prudence dictated by the nature of the Equipment as medical equipment. Lessor and/or DVI should it so elect, shall be solely responsible, at its own expense, for re-taking possession of the Equipment upon expiration or termination of the Lease Term and/or should Lessee make an election as described in Paragraph 1.5. In the event that Lessor does not perform maintenance services itself, Lessor shall ensure that the Equipment is covered by a maintenance agreement, to the extent available, with the manufacturer of the Equipment or other party reasonably acceptable to Lessee. If Lessor or its agent fails to maintain the Equipment in accordance with the standards set forth in this Agreement, and if no substitute System is provided to Lessee that is satisfactory to Lessee, then Lessee may arrange for such repair and maintenance and shall be reimbursed therefor from the escrow (the "MAINTENANCE ESCROW") established and funded pursuant to the A/P Agreement and the escrow agreement executed pursuant thereto. Should any of the Equipment fail to be returned to DVI in good repair, condition and working order, ordinary wear and tear excepted, Lessee shall have no liability therefor UNLESS Lessee was grossly negligent or reckless in its use of the Equipment, but DVI may be compensated therefor by any funds remaining in the Maintenance Escrow. If Lessee was grossly negligent or reckless, Lessee shall be obligated to pay Lessor for the out-of-pocket expenses Lessor (or DVI) incurs in bringing such Equipment up to the status of such repair and working order as the Equipment would have had but for Lessee's gross negligence or recklessness, but not in excess of the Casualty Value for such Equipment

2.4 TAXES. Lessor shall pay, and hereby indemnifies Lessee on a net, after-tax basis, against, and shall hold it harmless from, all license fees, assessments, and sales, use, property, excise and other taxes and charges, other than those measured by Lessee's net income, now and hereafter imposed by any Governmental Authority upon or with respect to any of the Equipment, or the possession, ownership, use or operation thereof, or any Lease, or the consummation of the transactions contemplated by any Lease. Lessor shall file personal property tax returns, and shall pay personal property taxes payable with respect to the Equipment.

2.5 LOSS OF EQUIPMENT. Lessor assumes the risk that any item of Equipment becomes lost, stolen, damaged, destroyed or otherwise unfit or unavailable for use from any cause whatsoever other than Lessee's gross negligence or recklessness (an "EVENT OF LOSS"). So long as an item of Equipment is unavailable to Lessee due to an Event of Loss, Lessee shall have no liability to Lessor or DVI to pay Rent therefor. However, should any insurance be payable on account of such Event of Loss, then Lessee shall be entitled to receive or retain from such insurance proceeds an amount equal to what is necessary for Lessee to lease replacement Equipment, less any Rent payable, for the remainder of the Term and DVI, shall receive the remainder.

2.6 INSURANCE. Lessor shall retain for the Lease Term at its own expense, property damage and liability insurance and insurance against loss or damage to the Equipment as a result of fire, explosion, theft, vandalism and such other risks of loss as are normally maintained on equipment of the type leased hereunder by companies carrying on the business in which Lessee is engaged, in such amounts, in such form and with such insurers as shall be satisfactory to Lessee (and DVI) and Lessee shall reimburse Lessor for the pro rated cost for each month a System remains subject to this Lease. In other words, should Lessee return a System as described in Paragraph 1.5, the obligation to reimburse Lessor for the insurance attributable to the individual returned System shall cease. Each insurance policy shall name Lessor (or DVI) as insured and Lessee and its assignees as additional insureds and loss payees thereof as their interest may appear, and shall provide that it may not be cancelled or altered without at least 30 days' prior written notice thereof being given to Lessee and DVI (or 10 days' notice, in the event of non-payment of premium).

2.7 LESSEE NEGATIVE COVENANTS. Without the prior written consent of Lessor and DVI, which consent as it pertains to clause (c) below shall not be unreasonably withheld, Lessee shall not: (a) assign, transfer, or otherwise dispose of any Equipment, the Lease or any rights or obligations thereunder; (b) create or incur, or permit to exist, any Lien with respect to any of the Equipment; (c) cause or permit any of the Equipment to be moved from the locations specified by Lessee in writing to Lessor (and DVI); or (d) cause or permit any of the Equipment to be moved outside the United States.

2.8 IDENTIFICATION. Lessee shall place and maintain permanent markings provided by Lessor on the Equipment evidencing ownership, security and other interests therein, as specified from time to time by Lessor.

2.9 ALTERATIONS AND MODIFICATIONS. Lessee shall not make any additions, attachments, alterations or improvements to the Equipment without the prior written consent of Lessor, not to be unreasonably withheld. Any addition, attachment, alteration or improvement to any item of Equipment shall belong to and become the property of Lessor unless, at the request of Lessor, it is removed prior to the return of such item of Equipment by Lessee. Lessee shall be responsible for all costs relating to such removal and shall restore such item of Equipment to the condition and value otherwise required hereunder.

2.10 PERSONAL PROPERTY. Lessee acknowledges and represents that the Equipment shall be and remain personal property, notwithstanding the manner by which it may be attached or affixed to realty, and Lessee shall do all acts and enter into all agreements necessary to ensure that the Equipment remains personal property. If requested by Lessor with respect to any item of Equipment, Lessee shall obtain and deliver to Lessor equipment access agreements, satisfactory to Lessor, from all persons claiming any interest in the real property on which such item of Equipment is installed or located..

III. DEFAULT AND REMEDIES

3.1 EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "EVENT OF DEFAULT" hereunder: (a) Lessee fails to pay any Rent or other amount due under this Lease within five days after it becomes due and payable; and (b) Lessee fails to perform any other covenant, condition or agreement made by it under this Lease, and such failure continues for 10 days.

3.2 REMEDIES. If an Event of Default exists, Lessor may exercise any one or more of the following remedies, in addition to those arising under applicable law: (a) proceed, by appropriate court action, to enforce performance by Lessee of the applicable covenants of this Lease; (b) terminate the Lease by 10 days' notice to Lessee and, unless Event of Default has been cured within that time, take possession of any or all of the Equipment and, for such purpose, enter upon any premises where the Equipment is located with or without notice or process of law and free from all claims by Lessee or any other person, or (c) require Lessee to assemble the Equipment and deliver it to DVI; and (d) recover any and all accrued and unpaid Rent and other amounts owing under the Lease for the remainder of the Term.

IV. MISCELLANEOUS

4.1 RIGHT TO USE. So long as no Event of Default exists, neither Lessor nor its assignee (including DVI) shall interfere with Lessee's right to use the Equipment under this Lease, nor with the ability of

Lessee to substitute one of the Systems listed on SCHEDULE 1 (other than System nos. 1, 5, 11, and 12) for System nos. 1, 5, 11, and 12, should any of the latter fail to meet the requirements of Lessee.

4.2 RIGHTS AND REMEDIES. Each right and remedy granted to Lessor under any Lease shall be cumulative and in addition to any other right or remedy existing in equity, at law, by virtue of statute or otherwise, and may be

exercised by Lessor from time to time concurrently or independently and as often and in such order as Lessor may elect. Any failure or delay on the part of Lessor in exercising any such right or remedy shall not operate as a waiver thereof.

4.3 SECTION HEADINGS; INTERPRETATION. Section headings are inserted for convenience of reference only and shall not affect any construction or interpretation of any Lease Document. In interpreting the provisions of any Lease Document, (a) the term "including" is not limiting; (b) references to "person" include individuals, corporations and other legal persons and entities; (c) the singular of defined terms includes the plural and vice-versa; and (d) section and paragraph references are to the document in which such reference appears, unless the context otherwise requires.

4.4 ENTIRE LEASE. This Agreement constitutes the entire agreement between Lessor and Lessee with respect to the lease of the Equipment. No waiver or amendment of, or any consent with respect to, any provision of any this Lease or any document executed pursuant hereto (each a "LEASE DOCUMENT") shall bind either party unless set forth in a writing, specifying such waiver, consent, or amendment, signed by both parties.

4.5 SEVERABILITY. Should any provision of any Lease Document be or become invalid, illegal, or unenforceable under applicable law, the other provisions of such Lease Document shall not be affected and shall remain in full force and effect.

4.6 GOVERNING LAW AND JURISDICTION. THIS AGREEMENT AND THE OTHER LEASE DOCUMENTS SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF CALIFORNIA. LESSOR AND LESSEE WAIVE ALL RIGHTS TO TRIAL BY JURY IN ANY LITIGATION ARISING FROM ANY LEASE DOCUMENT.

4.7 BANKRUPTCY COURT APPROVAL. Notwithstanding anything herein to the contrary, this Agreement, and all other documents or instruments executed concurrently herewith, shall not be effective until they have been approved by the Bankruptcy Court and the order approving same shall have become a final order such that no appeal has been filed or stay granted with respect thereto.

DIGIRAD IMAGING SYSTEMS, INC. Lessee	NUCLEAR IMAGING SYSTEMS, INC., Lessor
By: ---------- Title: ----------	By: ---------- Title: ----------

SCHEDULE 1

LEASED EQUIPMENT

NIS LOCATION	CHAIR SERIAL	PICKER CAMERA SERIAL #	PICKER COMPUTER SYSTEM#	NIS # #	SITE # NIS #	SITE #

-- --------
- ---------
- ---------
-------- --
----
1 Plymouth
Meeting, PA
8 V5124
77572 1
M105 77561
MAC IIFX --
--------- -

--- -------
-------- --
------- ---
------- ---
------ ----
---- ------
------ 5
Plymouth
Meeting, PA
7 US122
77574 5
MO131 77226
MAC IIFX --
--------- -

--- -------
-------- --
------- ---
------- ---
------ ----
---- ------
------ 6
Allentown,
PA 5 V5120
77575 6 136
77224 MAC
IIFX ------
----- -----

------- ---
----- -----
---- ------
---- ------
--- -------
- ---------
--- 8 Ply
Mtg. PA
(Clemente
I) 10 115R
200608 8
149 77227
Quadro 950

---- ------
- --------
--------- -
--------- -
-------- --
------ ----
-------- 9
Plymouth
Meeting, PA
1 US130
76535 9
M152 77571
Quadro 950

---- ------
- --------
--------- -
--------- -
-------- --
------ ----
-------- 10
Rockville,
MD 9 125

76451 10
153 76450
Quadro 950

-

11
Glen
Burnie, MD
2 133 77576
11 159
77231
Quadro 950

-

12
Burlington,
NC 4 135
77578 12
161 77228
Quadro 950

-

13
Plymouth
Meeting, PA
3 U5134
76449 13
164 77233
Quadro 950

-

14
Plymouth
Meeting, PA
5 121 77579
14 166
77235
Quadro 950

-

NIS SERIAL
PRINTER

SERIAL #
DRIVE #1
SYSTEM# ---
-------- --

----- -----

----- -----
------- ---

--------- 1
MITS
CP100VA
100776
Infinity 44

------- ---

------- ---
--------- -

----
5 MITS
CP100VA
101098
Syquest 44

------- ---

------- ---
--------- -

----
6 MIYS CP
110V 100581
Infinity 44

------- ---

------- ---
--------- -

----
8 MIYS CP
110V 100423
Infinity
44/MO -----
------ ----

--- -------

--- -------
----- -----

------- 9
F32442UT671
MITS
CP100VA
100328
Infinity
44/MO -----
------ ----

--- -------

--- -------
----- -----

------- 10
F3250DGJ671
MITS
CP100VA
101168 Sony
MO 128MA --
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------ ----

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11

F330709R671
MITS CP
110V 100017
Sony
MO128MB ---
--- --

--- ---

--- ---
--- ---

12
XB33B34HY671
MITS CP
110V 101156
Sony
MO128MB ---
--- --

--- ---

--- ---
--- ---

---
13 MITS
CP100VA
Sony
MO128MB ---
--- --

--- ---

--- ---
--- ---

---
14 MITS
CP100VA
Sony
MO128MB ---
--- --

--- ---

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Each row of the foregoing chart describes a series of assets comprising a single "System" for which the monthly rental rate is $2,000.

EXHIBIT C

OMITTED

4.

EXHIBIT D

OMITTED

EXHIBIT E

NON-COMPETITION AGREEMENT

NON-COMPETITION AND NON-DISCLOSURE AGREEMENT

This NON-COMPETITION AND NON-DISCLOSURE AGREEMENT (this "Agreement") is made as of September 29, 2000 by and between Digirad Imaging Systems, Inc., a Delaware corporation (the "Company"), and Jeffrey Mandler ("Mr. Mandler") pursuant to that certain "Asset Purchase Agreement" dated as of the date hereof (the "Purchase Agreement") and executed by and between the Company, on the one hand, and Nuclear Imaging Systems, Inc. ("NIS") and Cardiovascular Concepts, P.C. ("CVC"), on the other. Capitalized terms used herein and not otherwise defined herein shall have the meanings given such terms in the Purchase Agreement.

RECITALS

WHEREAS, NIS is a debtor and debtor in possession in chapter 11 case no. 00-19698 and CVC is a debtor and debtor in possession in chapter 11 case no. 00-19697, which have been consolidated together for administrative purposes (together, the "Bankruptcy Case") both pending in the United States Bankruptcy Court for the Eastern District of Pennsylvania (the "Bankruptcy Court");

WHEREAS, Mr. Mandler is the principal and sole shareholder of NIS and of CVC, and is himself a debtor in a chapter 11 case (the "Mandler Case") before the Bankruptcy Court;

WHEREAS, the Company is purchasing from NIS and CVC all of its assets (the "Purchased Assets") used in or pertaining to the mobile delivery of diagnostic cardiac services, diagnostic imaging equipment and related technical services to physicians providing cardiology services (the "Mobile Business") pursuant to the Purchase Agreement, and pursuant to an order of the Bankruptcy Court approving the sale and transfer of the Purchased Assets to the Company pursuant to 11 U.S.C. ss.ss.363 and 365, among other things;

WHEREAS, the going concern value of the Purchased Assets and the Mobile Business being acquired by the Company (the "Acquisition") would be diminished substantially if Mr. Mandler were to compete with the Company in the Mobile Business and the Company's business of providing mobile nuclear imaging services (the "Company Business" and, together with the Mobile Business, called the "Business") within the United States (the "Territory");

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement, and in connection with the closing under the Purchase Agreement and the sale of the Purchased Assets in connection therewith, the parties hereto agree as follows:

1. NON-COMPETITION. As an inducement for the Company to enter into the Purchase Agreement and to pay the Purchase Price for the Acquisition, and in consideration of Mr. Mandler's exposure to confidential information of the Company Business as well as the

consideration payable to Mr. Mandler under the Consulting Agreement executed by and between the Company and Mr. Mandler concurrently herewith, Mr. Mandler hereby covenants as follows:

a. IN GENERAL. Commencing on the date all conditions precedent to the effectiveness of the Purchase Agreement have been satisfied (the "Closing Date") and for a period of three (3) consecutive years thereafter (the "Term"), except as otherwise provided in this Agreement, Mr. Mandler shall not, directly or indirectly, own, manage, engage in, operate or conduct, prepare to or plan to conduct or assist any person or entity to conduct any business, or have any interest in any business, person, firm, corporation or other entity ("Competitor") as a principal, owner, agent, employee, shareholder, officer, director, joint venturer, partner, security holder (except for the ownership of publicly-traded securities constituting not more than five percent of the outstanding securities of the issuer thereof), creditor (except for trade credit extended in the ordinary course of business), consultant or in any other capacity if that Competitor engages, directly or indirectly, in any business which is substantially similar to or competitive with the Business anywhere in the Territory.

b. NO DIVERSION OF OTHERS. During the Term, Mr. Mandler shall not, either for himself or for any other person, firm, corporation or other entity, directly or indirectly, or by action in concert with others:

(i) induce or influence, or seek to induce or influence, any person who is engaged by the Company or NIS or CVC or any affiliate of any of them (in any such case, as an agent, employee, consultant, or in any other capacity) or any successor thereto with the purpose of obtaining such person as an employee or customer for a business competitive with the Business; or

(ii) divert or take away or attempt to divert or take away, or solicit or attempt to solicit, any existing customer of the Company or NIS or CVC or any affiliate of any of them (whether or not such customer is actually a customer of NIS, CVC or the Business as of the Closing Date, and including without limitation any customer solicited by Mr. Mandler or which became known by Mr. Mandler prior to the effectiveness of this Agreement) with the purpose of obtaining such person as an employee or customer for a business competitive with the Business.

c. ORGANIZING COMPETITIVE BUSINESS. Without limiting any of the other provisions contained in this SECTION 1, during the Term, Mr. Mandler shall not (i) plan to compete, prepare to compete nor discuss the Business with any third party that is planning or preparing to compete with the Business in the Territory, (ii) act in concert with or conspire with agents, employees, consultants, other representatives of the Company or any other third party for the purpose of organizing any business activity competitive with the Business in the Territory; nor (iii) take any other action to compete with the Business anywhere in the Territory nor assist some third person to do so.

2. CONFIDENTIAL INFORMATION AND NON-DISCLOSURE.

a. DEFINITION OF CONFIDENTIAL INFORMATION. Mr. Mandler hereby acknowledges that the Purchased Assets include confidential and proprietary information in

existence prior to the date of this Agreement (collectively, "Confidential Information"), which Confidential Information shall include, without limitation, all of the following materials and information (whether or not reduced to writing and whether or not patentable or protected by copyright): (i) all customer lists, business methods, and marketing programs of NIS, CVC, and/or the Company; (ii) any and all trade secrets concerning the business and affairs of Mobile Business, business plans and projections, product specifications, procedures, formulae, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions, models, documentation, techniques, diagrams, flowcharts, existing new products and new technology information, product copies, manufacturing, development or marketing techniques, material development or marketing timetables, strategies and development plans, and past, current and planned research and development, current and planned manufacturing and distribution methods and processes, customer lists, current customer requirements, price lists, market studies, computer software and programs (including object code and source code), computer software and database technologies and information (and related processes, formulae, compositions, improvements, devices, inventions, discoveries, designs, methods and information) of the Mobile Business including but not limited to information related to the customers, suppliers or personnel of such members of the Business, and any other information, however, documented, of the Mobile Business; (iii) any and all information concerning the business and affairs of the Mobile Business (which includes historical financial statements, financial projections and budgets, historical and projected sales, capital spending budgets and plans, the names and backgrounds of key personnel and personnel training and techniques and materials), however documented; and (iv) any and all notes, analyses, compilations, studies, summaries, and other material prepared by or for the Mobile Business containing or based, in whole or in part, on any information included in the foregoing. The parties hereto agree that the failure of any Confidential Information to be marked or otherwise labeled as confidential or proprietary information shall not affect its status as Confidential Information. Notwithstanding the foregoing, Confidential Information shall not include (1) any information which is generally known to the public or to companies in businesses similar to the Business, (2) any information which later, through no act of NIS, CVC, their affiliates, Mr. Mandler or his affiliates, becomes generally known or (3) any information required to be disclosed by Person pursuant to a subpoena or court order, or pursuant to a requirement of a governmental agency or law of the United States of America or a state thereof or any governmental or political subdivision thereof, provided that (a) Mr. Mandler will provide the Company with prior written notice of such disclosure in order that the Company may attempt to obtain a protective order or the assurance of confidential treatment, and (b) Mr. Mandler will cooperate with the Company in attempting to obtain such order or assurance.

b. NON-USE AND NON-DISCLOSURE. Commencing on the date of this Agreement and at all times thereafter, Mr. Mandler shall hold in the strictest confidence (except as previously approved by the Company in writing), and shall not, directly or indirectly, disclose, divulge, reveal, report, publish, transfer or otherwise communicate, or use for his own benefit or the benefit of any other person, partnership, firm, corporation or other entity, or use to the detriment of the Company, Digirad Corporation, and/or the Business or misuse in any way, any Confidential Information. Mr. Mandler acknowledges that he will in no way infringe upon any intellectual property included in the Purchased Assets or used in the Business and will in no way use, copy, appropriate or redistribute any part of the Confidential Information (or any intellectual property), whether obtained directly or indirectly from the Company, without a specific written

license agreement with the Company. It is agreed that any derivative, modification or elaboration of any Confidential Information by any third party remains the proprietary property of the Company for purposes of this Agreement. Mr. Mandler and the Company each hereby covenants and agrees that, as between them, all Confidential Information acquired by the Company constitutes important, material and confidential and/or proprietary information of the Business, constitutes unique and valuable information, and affects the successful conduct of the Business and the Company's goodwill, and that the Company shall be entitled to recover its damages, in addition to any injunctive remedy that may be available, for any breach of this SECTION 2.

c. TRADE SECRETS. All trade secrets of the Business will be entitled to all of the protection and benefits under all applicable federal and state trade secrets law. If any information that the Company deems to be a trade secret is found by a court of competent jurisdiction not to be a trade secret for purposes of this Agreement, such information will, nevertheless, be considered Confidential Information for purposes of this Agreement. Mr. Mandler hereby waives any requirement that the Company (or Digirad Corporation) submit proof of the economic value of any trade secret or post a bond or other security.

d. OWNERSHIP. Mr. Mandler hereby acknowledges and agrees that all right, title and interest in and to any Confidential Information shall be the exclusive property of the Company. Without limiting the foregoing, Mr. Mandler shall assign to the Company any and all right, title or interest which Mr. Mandler may have in all Confidential Information made, developed or conceived of in whole or in part by Mr. Mandler. Mr. Mandler further agrees to execute and deliver any and all instruments, and to do all other things reasonably requested by the Company in order to vest more fully in the Company all ownership rights in such Confidential Information. All equipment, notebooks, documents, memoranda, reports, files, samples, books, correspondence, lists, other written and graphic records, and the like, in any way relating to any Confidential Information or the Business, which Mr. Mandler prepared, used, constructed, observed, processed, or controlled (collectively, "Materials") shall be the Company's exclusive property, and Mr. Mandler hereby agrees to deliver all Materials, together with any and all copies thereof, promptly to the Company at the Company's request.

3. REASONABLENESS OF RESTRICTIONS. MR. MANDLER HAS CAREFULLY READ AND CONSIDERED THE PROVISIONS OF SECTIONS 1 AND 2 HEREOF AND, HAVING DONE SO, HEREBY AGREES THAT THE RESTRICTIONS SET FORTH IN SUCH SECTIONS ARE FAIR AND REASONABLE AND ARE REASONABLY REQUIRED FOR THE PROTECTION OF THE INTERESTS OF THE COMPANY AND THE BUSINESS.

4. INJUNCTIVE RELIEF AND TERMINATION.

a. IN GENERAL. Mr. Mandler acknowledges and agrees that the Company and/or Digirad Corporation (the parent of the Company) shall suffer irreparable harm in the event that Mr. Mandler breaches any of his obligations under Section 1 or 2 hereof, and that monetary damages shall be inadequate to compensate the Company and/or Digirad Corporation for any such breach. Notwithstanding the arbitration provision of the Purchase Agreement, Mr. Mandler agrees that in the event of any breach or threatened breach by Mr. Mandler of any of the provisions of SECTION 1 or SECTION 2 hereof, the Company and/or Digirad Corporation shall be

entitled to a temporary restraining order, preliminary injunction and permanent injunction in order to prevent or restrain any such breach or threatened breach by Mr. Mandler, or by any or all of Mr. Mandler's agents, representatives or other persons directly or indirectly acting for, on behalf of or with Mr. Mandler.

b. NO LIMITATION OF REMEDIES. Notwithstanding the provisions set forth in SECTION 4(a), above, or any other provision contained in this Agreement, the parties hereby agree that no remedy conferred by any of the specific provisions of this Agreement, including, without limitation, this SECTION 4, is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise.

5. MISCELLANEOUS.

a. NOTICES. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally against written receipt or by facsimile

transmission with answer back confirmation or mailed (postage prepaid by certified or registered mail, return receipt requested) or by overnight courier to the parties at the following addresses or facsimile numbers:

If to Mr. Mandler, to:

Jeffrey Mandler
c/o Nuclear Imaging Systems, Inc.
The Mark Building
3223 Phoenixville Pike, Suite C
Malvern , PA 19355
Facsimile No: (610) 296-1176

If to the Company, to:

Digirad Imaging Systems, Inc.
9305 Trade Place
San Diego, CA 92126
Facsimile No.: (858) 549-7714
Attention: Chief Executive Officer

with copies to:

Brobeck, Phleger & Harrison LLP
12390 El Camino Real
San Diego, CA 92130
Facsimile No.: (858) 720-2555
Attention: Maria K. Pum, Esq.

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this SECTION 5(a), be deemed given upon delivery, (ii) if delivered by

facsimile transmission to the facsimile number as provided in this SECTION 5(a), be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this SECTION 5(a), be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

b. ENTIRE AGREEMENT. This Agreement, the Purchase Agreement (and all exhibits and schedules attached thereto) and all other documents delivered in connection herewith and therewith supersede all prior discussions and agreements among the parties with respect to the subject matter hereof and thereof and contains the sole and entire agreement among the parties hereto with respect thereto.

c. WAIVER. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. No waiver by any party hereto of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by law or otherwise afforded, will be cumulative and not alternative.

d. AMENDMENT. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

e. NO THIRD PARTY BENEFICIARY. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and the Company's successors or assigns and for the benefit of Digirad Corporation, and it is not the intention of the parties to confer third-party beneficiary rights upon any other Person.

f. NO ASSIGNMENT; BINDING EFFECT. This Agreement shall inure to the benefit of any successors or assigns of the Company and Digirad Corporation. Mr. Mandler shall not be entitled to assign his rights or obligations under this Agreement.

g. HEADINGS. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

h. SEVERABILITY. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under this Agreement will

not be materially and adversely affected thereby, (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this

Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and mutually acceptable to the parties herein.

i. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts executed and performed in such State, without giving effect to conflicts of laws principles (other than any provisions thereof validating the choice of the laws of the Commonwealth of Pennsylvania in the governing law).

j. ATTORNEYS' FEES. In the event suit or action is brought by any party under this Agreement to enforce or construe any of its terms, the prevailing party shall be entitled to recover, in addition to all other amounts and relief, its reasonable costs and attorneys' fees incurred at and in preparation for arbitration, trial, appeal and review, such sum to be set by the arbitrator or court before which the matter is heard.

k. CONSTRUCTION. No provision of this Agreement shall be construed in favor of or against any party on the ground that such party or its counsel drafted the provision. Any remedies provided for herein are not exclusive of any other lawful remedies which may be available to either party. This Agreement shall at all times be construed so as to carry out the purposes stated herein.

l. COUNTERPARTS. This Agreement may be executed in any number of counterparts and by facsimile, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first above written.

DIGIRAD IMAGING SYSTEMS, INC.
a Delaware corporation

By:

Name:

Title:

JEFFREY MANDLER

[SIGNATURE PAGE TO THE JEFFERY MANDLER
NON-COMPETITION AND NON-DISCLOSURE AGREEMENT]

EXHIBIT F

OMITTED

EXHIBIT G

INDEMNITY AGREEMENT

THIS INDEMNITY AGREEMENT is executed as of this 29th day of September, 2000 by JEFFREY MANDLER ("Mandler") in favor of Digirad Imaging

Systems, Inc. and its affiliates (including, without limitation, Digirad Corporation) as a material inducement to Digirad Imaging Systems, Inc. ("DIS") to enter into and perform that certain Asset Purchase Agreement (the "A/P Agreement") between DIS, Cardiovascular Concepts, P.C. ("CVC") and Nuclear Imaging Services, Inc. ("NIS" and together with CVC, referred to as the "Company") and dated on or about the date hereof. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the A/P Agreement.

1. INDEMNIFICATION. Mandler hereby agrees that he shall indemnify, defend and hold harmless DIS and Digirad Corporation and their respective officers, directors, employees, agents, successors and assigns (collectively the "Indemnitees") from and against any and all costs, losses, Liabilities, damages, lawsuits, deficiencies, claims and expenses, including without limitation, interest, penalties, costs of mitigation, clean-up or remedial action, attorneys' fees and all amounts paid to third parties in investigation, defense or settlement of any of the foregoing (collectively, the "Damages"), suffered by any of the Indemnitees, incurred in connection with, arising out of, resulting from or incident to:

(a) any breach of any covenant, representation, warranty or agreement or the inaccuracy of any representation, made by NIS, CVC, Mandler, or any of their respective employees, agents or representatives in or pursuant to the A/P Agreement or the other Acquisition Documents;

(b) the filing of a petition under title 11 of the United States Code (the "Bankruptcy Code") by or against Medical Management Concepts, Inc. ("MMC") to the extent such Damages could have been avoided or reduced by any Indemnitee if MMC had entered into the agreements that MMC entered into with any of DIS, Digirad Corporation, or any of their affiliates on or about the date hereof (the "Subject Agreements") AFTER such petition of MMC was filed rather than before, including without limitation, any fees, costs or losses or other Damages incurred by and Indemnitee (i) in defending their respective rights in such ensuing bankruptcy of MMC, (ii) in paying, whether voluntarily or involuntarily, due to practical, legal or business need or expedience, any debts or obligations of MMC that could have been compromised or discharged if MMC had filed bankruptcy before the Subject Agreements were entered into, or (iii) in protecting its rights against third parties where the bankruptcy court's approval (upheld on appeal, if any) of the Subject Agreements could have eliminated or reduced such Damages.

2. PROCEDURE. Should any Indemnitee desire to assert a claim for indemnification, such Indemnitee shall, if it is not DIS or Digirad Corporation, first give notice of the claim to either DIS or Digirad Corporation. If DIS or Digirad Corporation does not oppose assertion of the claim by the Indemnitee, either DIS or Digirad shall provide written notice to Mandler of the claim (the "Claim Notice"). Upon receipt of a Claim Notice, Mandler

shall have ten (10) days to object, in writing, to such claim (the "Dispute Notice"), providing notice thereof to the party asserting the claim and, if different, to DIS and Digirad Corporation. If the claim is not timely disputed by Mandler, the Indemnitee asserting a right to indemnification shall have the right to enforce its indemnity rights as defined hereunder. If Mandler timely provides a Dispute Notice, Mandler and the party or parties asserting the indemnification claim and DIS and Digirad Corporation (if they choose to participate in the resolution of the dispute) shall attempt in good faith to agree upon the rights or the respective parties with respect to such claim. If the parties agree as to the resolution of such claim, they shall prepare a memorandum setting forth the terms of such resolution and signed by each party. If no agreement is reached with thirty (30) days after delivery of the Dispute Notice, any of Mandler, the Indemnitee seeking indemnification, DIS or Digirad Corporation may demand arbitration of the matter and the matter shall be settled by arbitration conducted in accordance with this Agreement. The decision of the arbitrators as to the validity and amount of any claim shall be final, binding and conclusive upon the parties to the arbitration.

3. DEFENSE OF CLAIMS. If any Action or Proceeding is filed or initiated against any Indemnitee, written notice thereof shall be given to Mandler (and, if different, to DIS and Digirad Corporation) as promptly as practicable (and in any event within ten (10) days after the service of the citation or summons); provided, however, that the failure of any Indemnitee to give timely notice to Mandler shall not affect rights to indemnification hereunder except to the extent that Mandler has been materially prejudiced by such failure to give timely notice, and the failure of the Indemnitee to give either DIS or Digirad Corporation notice shall (a) oblige Mandler to notify DIS and Digirad (if they are not the Indemnitee notifying Mandler of the Action or Proceeding), and (b) the 15 day period referred to below within which Mandler must assume the defense of the Action or Proceeding shall be extended to 25 days

if and only if prior to the 15th day, Mandler has given notice to DIS and Digirad Corporation where the Indemnitee has failed to do so. After such notice, if Mandler shall acknowledge in writing to the Indemnitee providing notice to Mandler that Mandler shall be obligated under the terms of his indemnity hereunder in connection with such Action or Proceeding, then Mandler shall be entitled, if he so elects, to take control of the defense and investigation of such Action or Proceeding and to employ and engage attorneys of his own choice to handle and defend the same, such attorneys to be reasonably satisfactory to the Indemnitee giving notice of the Action or Proceeding (and, if different, to DIS and Digirad Corporation), at Mandler's cost, risk and expense (unless (i) Mandler has failed to assume the defense of such Action or Proceeding or (ii) the named parties to such Action or Proceeding include both Mandler and the subject Indemnitee, and such Indemnitee and its counsel determine in good faith that there may be one or more legal defenses available to such Indemnitee that are different from or additional to those available to Mandler and that joint representation would be inappropriate), and to compromise or settle such Action or Proceeding, which compromise or settlement shall be made only with the written consent of the subject Indemnitee (and, if different, DIS and Digirad Corporation), such consent not to be unreasonably withheld. The subject Indemnitee (and, if different, DIS and Digirad Corporation) may withhold such consent if such compromise or settlement would materially adversely affect the conduct of the business of any of the subject Indemnitee, DIS and/or Digirad Corporation. Notwithstanding the foregoing, the subject Indemnitee (and, if different, DIS and Digirad Corporation) may not withhold consent if such compromise or settlement includes an unconditional release of claims against the subject Indemnitee (and, if different, DIS and Digirad Corporation). If (i) Mandler fails to assume the defense of such Action or Proceeding within

fifteen (15) days after receipt of notice thereof pursuant to this Agreement, or (ii) the named parties to such Action or Proceeding include both Mandler and the subject Indemnitee and the subject Indemnitee and his, her or its counsel determine in good faith that there may be one or more legal defenses available to such Indemnitee that are different from or additional to those available to Mandler and that joint representation would be inappropriate, the subject Indemnitee against which such Action or Proceeding has been filed or initiated will (upon delivering notice to such effect to Mandler) have the right to undertake, at Mandler's cost and expense, the defense, compromise or settlement of such Action or Proceeding on behalf of and for the account and risk of Mandler; provided, however, that such Action or Proceeding shall not be compromised or settled without the written consent of Mandler, which consent shall not be unreasonably withheld. In the event the subject Indemnitee assumes defense of the Action or Proceeding, such Indemnitee will keep Mandler reasonably informed of the progress of any such defense, compromise or settlement and will consult with, when appropriate, and consider any reasonable advice from, Mandler of any such defense, compromise or settlement.

4. LIABILITY. Mandler shall be liable for any settlement of any action effected pursuant to and in accordance with this Agreement and for any final judgment (subject to any right of appeal), and Mandler agrees to indemnify and hold harmless the subject Indemnitee (and all Indemnitees) from and against any Damages by reason of such settlement or judgment. Furthermore, regardless of whether Mandler or any given Indemnitee takes up the defense, Mandler will pay reasonable costs and expenses in connection with the defense, compromise or settlement for any Action or Proceeding under this Agreement.

5. COOPERATION. Each Indemnitee shall cooperate in all reasonable respects with Mandler and his attorneys in the investigation, trial and defense of any Action or Proceeding and any appeal arising therefrom; provided, however, that any Indemnitee that is named in such Action or Proceeding, and DIS and Digirad Corporation may, at its own cost, participate in the investigation, trial and defense of such Action or Proceeding and any appeal arising therefrom. Mandler shall pay all expenses due under this Agreement as such expenses become due.

6. SECURITY. As collateral for and to secure (a) the payment and performance of Mandler under this Agreement, and (b) any and all obligations Mandler may have or acquire under the A/P Agreement and the other Acquisition Documents, Mandler hereby grants to DIS and Digirad Corporation a security interest (which shall be of no less than first priority) in all presently owned or hereafter acquired capital stock of Mandler in either DIS or Digirad Corporation, together with all dividends and distributions received at any time by Mandler on account of such capital stock, and together with whatever may be received by Mandler on account of said capital stock (whether cash, additional stock, or other personal property of any kind), together with all proceeds of any of the foregoing. In addition, Mandler covenants and agrees to execute and deliver to DIS and Digirad Corporation such further and additional documentation as either DIS or Digirad Corporation may reasonably request to provide DIS and Digirad a duly perfected, first priority security interest in all such collateral described in this Section 6.

Executed as of this ___ day of _____, September, 2000.

JEFFERY MANDLER

EXHIBIT H
CERTIFICATE OF THE SECRETARY OF THE EACH COMPANY

CERTIFICATE OF NUCLEAR IMAGING SYSTEMS, INC.
BY ITS SECRETARY

Pursuant to the Asset Purchase Agreement dated September ___, 2000 (the "Purchase Agreement") by and among Digirad Imaging Systems, Inc., a Delaware corporation, and Nuclear Imaging Systems, Inc., a Pennsylvania corporation, the undersigned hereby certifies as follows:

1. The undersigned is the duly elected, qualified and acting Secretary of Nuclear Imaging Systems, Inc. (the "Company"), and, as such, the undersigned is familiar with the facts certified herein.

2. Attached hereto as EXHIBIT A is a true and complete copy of the Articles of Incorporation and bylaws of the Company certified by the Secretary of State of Pennsylvania.

3. Attached hereto as EXHIBIT B is a certificate of each appropriate Secretary of State certifying the good standing of the Company in its state of incorporation.

4. Attached hereto as EXHIBIT C are resolutions relating to proceedings of and action taken by the Company's board of directors and stockholders, relating to approval of the Purchase Agreement and the transactions contemplated thereby, all of which resolution are true, correct and complete and remain in effect, and have not been modified, amended, rescinded or revoked, as of the date hereof.

5. Each of the persons named below is the duly elected and qualified incumbent in the office of the Company set forth opposite his or her name and the signature set forth opposite his or her name is true and correct signature.

NAME
TITLE
SIGNATURE
---- ---
-- -----

President

- Chief
Financial
Officer

-

-
Secretary

-

-

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Secretary this ____ day of _____, 2000.

Title:

CERTIFICATE OF CARDIOVASCULAR CONCEPTS, P.C.
BY ITS SECRETARY

Pursuant to the Asset Purchase Agreement dated September ___, 2000 (the "Purchase Agreement") by and among Digirad Imaging Systems, Inc., a Delaware corporation, Nuclear Imaging Systems, Inc., a Pennsylvania corporation, and Cardiovascular Concepts, a Pennsylvania professional corporation, the undersigned hereby certifies as follows:

1. The undersigned is the duly elected, qualified and acting Secretary of Cardiovascular Concepts, P.C. (the "Company"), and, as such, the undersigned is familiar with the facts certified herein.

2. Attached hereto as EXHIBIT A is a true and complete copy of the Articles of Incorporation and bylaws of the Company certified by the Secretary of State of Pennsylvania.

3. Attached hereto as EXHIBIT B is a certificate of each appropriate Secretary of State certifying the good standing of the Company in its state of incorporation.

4. Attached hereto as EXHIBIT C are resolutions relating to proceedings of and action taken by the Company's board of directors and stockholders, relating to approval of the Purchase Agreement and the transactions contemplated thereby, all of which resolution are true, correct and complete and remain in effect, and have not been modified, amended, rescinded or revoked, as of the date hereof.

5. Each of the persons named below is the duly elected and qualified incumbent in the office of the Company set forth opposite his or her name and the signature set forth opposite his or her name is true and correct signature.

NAME TITLE	SIGNATURE
President	
- Chief Financial Officer	
Secretary	

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Secretary this _____ day of _____, 2000.

Title:

Approved as to form and content:

Jeff Mandler, President

Joel S. Raichlen, sole shareholder of the Company

EXHIBIT I

RADIATION SAFETY OFFICER SERVICES AGREEMENT

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT ("Agreement"), dated as of _____, 2000, is entered into by and between DIGIRAD IMAGING SYSTEMS, INC., a Delaware corporation (the "Company"), and _____, an individual (the "Consultant").

WHEREAS, the Company is, concurrent with the execution of this Agreement, purchasing certain assets of Nuclear Imaging Systems, Inc ("NIS") pursuant to that certain Asset Purchase Agreement dated of even date herewith (the "Purchase Agreement");

WHEREAS, the Purchase Agreement requires the Company and the Consultant to enter into this Agreement as a condition to the Company's obligation to consummate the transactions contemplated under the Purchase Agreement; and

WHEREAS, the Company desires the Consultant to provide the services described herein and in the Attachments hereto, and the Consultant desires to provide such services to the Company, on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and the Consultant hereby agree as follows:

1. TERM. The Company hereby retains the Consultant to provide the Consulting Services (defined below) to the Company for an initial period commencing on the date hereof and ending one year hereafter (the "Initial Period"). This Agreement shall automatically renew for additional six-month terms (each a "Subsequent Period") unless either party has provided the other party with notice of its intent not to renew, at least thirty (30) days prior to the end of the Initial Period or any Subsequent Period, as the case may be. The Initial Period and all Subsequent Periods, if any, shall collectively be referred to herein as the "Consulting Period."

2. NATURE OF CONSULTING SERVICES. During the Consulting Period, the Consultant shall perform such services for the Company as may be requested from time to time by the Company, including, but not limited to, those services set forth in ATTACHMENT A hereto (the "Consulting Services"). The Consultant shall report directly to the Chief Executive Officer of the Company and shall provide the Consulting Services in accordance with the instructions of the Chief Executive Officer of the Company.

3. TIME AND EFFORT. The Consultant shall provide the Consulting Services personally at such times and locations as shall be requested by the Company; provided, however, that under no circumstances shall Consultant spend less than sufficient time to perform the

services as required under (i) the Materials License(s) described in ATTACHMENT A (the "Materials License(s)") and (ii) all applicable laws, rules and regulations relating to the Materials Licenses and the Consulting Services. The Consultant shall be available within a reasonable period of time during the normal business hours of the Company to provide the Consulting Services by telephone or in person.

4. METHOD OF PERFORMING SERVICES.

a. PERFORMANCE OF OBLIGATIONS BY THE CONSULTANT. Subject to the terms of this Agreement, the Consultant and the Company shall together determine the method, details and means of performing the Consulting Services to be provided under this Agreement. Except as set forth in the description of the Consulting Services on ATTACHMENT A, the Consultant shall have no authority to obligate or incur on behalf of the Company any expense, liability or obligation, or to enter into any contract on behalf of the Company with respect to any expense, liability or obligation, without the prior written approval of the Company. The Consultant shall in all respects perform the

Consulting Services required to be performed by the Consultant hereunder in a diligent and competent manner and shall comply with all provisions of the Materials License(s) and all laws and regulations applicable thereto.

b. COOPERATION BY THE COMPANY. The Company shall provide access to all documents and other information reasonably necessary to enable the Consultant to perform the Consulting Services under this Agreement. In the event that the Consultant deems it appropriate to perform on the Company's premises any or all of its duties hereunder, the Company shall furnish office space on its premises for use by the Consultant during the Consulting Period for such purposes.

c. ACKNOWLEDGEMENT OF REPORTING RELATIONSHIPS. The Consultant further acknowledges and agrees that all advice, recommendations and other communications between the Consultant and the Company contemplated hereunder will be made between the Consultant and the Chief Executive Officer of the Company, or such other personnel as shall be designated by the Chief Executive Officer.

d. CERTIFICATION AND TRAINING. The Consultant represents and warrants that he is familiar with the provisions of the Materials License(s) and all applicable laws thereto. The Consultant further represents and warrants that het has obtained all certifications, experience and training required under the laws, rules and regulations applicable to and under the terms of the Materials License(s).

5. COMPENSATION.

a. CONSULTING FEES. In consideration for the Consulting Services rendered to the Company by the Consulting pursuant to this Agreement, the Company shall pay to the Consultant a consulting fee in the amount of $150 per route per month ("consulting Fee"). The Consulting Fee required to be paid by the Company shall be payable monthly in arrears; PROVIDED, HOWEVER, that the amount of such monthly Consulting Fee shall be prorated for any partial month during the Consulting Period.

b. REIMBURSEMENT OF EXPENSES. The Company shall reimburse the Consultant for all reasonable out-of-pocket expenses incurred by the Consultant in connection with the performance of the Consulting Service. Reimbursement of such approved expenses shall be paid by the Company within thirty (30) business days after receipt of a written statement of the Consultant setting forth (in reasonable detail) the description and amount of such incurred expenses.

c. REIMBURSEMENT OF LICENSURE FEES. The Company shall reimburse the Consultant for all licensure fees incurred by the Consultant in connection with the performance of the Consulting Services. Reimbursement of such licensure fees shall be paid by the Company within thirty (30) days after receipt of a written statement of the Consultant setting forth the description and amount of such incurred licensure fees.

6. CONFIDENTIAL NON-DISCLOSURE. During the Consulting Period and at all times thereafter, Consultants agrees as follows:

a. DEFINITION OF CONFIDENTIAL INFORMATION. Consultant understands that the Company possesses and will possess Proprietary Information which is important to its business. For purposes of this Agreement, "Proprietary Information" is information that was or will be developed, created, or discovered by or on behalf of the Company, or which became or will become known by, or was or is conveyed to the Company (including, without limitation, any confidential and proprietary information that the Company purchased from NIS under the Asset Purchase Agreement), which has commercial value in the Company's business. "Proprietary Information" includes, but is not limited to, information about trade secrets, product specifications, data, procedures, know-how, formulae, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions, models, documentation, techniques, diagrams, flowcharts, new products and new technology information, product prototypes, product copies, manufacturing, development or marketing techniques, material development or marketing timetables, strategies and development plans, and ideas, past, current and planned research and development, current and planned manufacturing distribution methods and processes, customer lists, current and anticipated customer requirements, price lists, market studies, business plans, computer software and programs computer programs, software, source code, object code, algorithms, designs, technology, ideas, know-how, processes, formulas, compositions, data, techniques, improvements, inventions (whether patentable or not), works of authorship, business and product development plans, the salaries and terms of compensation of Company employees and other consultants, customers and other information concerning the Company's actual or anticipated business, research or development, or which is received in confidence by or for the Company from any other person. Consultant understands that the consulting arrangement between Consultant and the Company creates a relationship of confidence and trust between Consultant and the Company with respect to

Proprietary Information.

b. Consultant understands that the Company possesses or will possess "Company Materials" which are important to its business. For purposes of this Agreement, "Company Materials" are documents or other media or tangible items that contain or embody Proprietary Information or any other information concerning the business, operations or plans of

the Company, whether such documents have been prepared by Consultant or by others. "Company Materials" include, but are not limited to, blueprints, drawings, photographs, charts, graphs, notebooks, customer lists, computer disks, tapes or printouts, sound recordings and other printed, typewritten or handwritten documents, as well as samples, prototypes, models, products and the like.

c. All Proprietary Information and all title, patents, patent rights, copyrights, mask work rights, trade secret rights, and other intellectual property and rights anywhere in the world (collectively "Rights") in connection therewith shall be the sole property of the Company. Consultant hereby assigns to the Company any Rights Consultant may have or acquire in such Proprietary Information. At all times, both during the term of this Agreement and after its termination, Consultant will keep in confidence and trust and will not use or disclose any Proprietary Information or anything relating to it without the prior written consent of an officer of the Company. Consultant acknowledges that any disclosure or unauthorized use of Proprietary Information will constitute a material breach of this Agreement and cause substantial harm to the Company for which damages would not be a fully adequate remedy, and, therefore, in the event of any such breach, in addition to other available remedies, the Company shall have the right (without posting any bond or other security) to obtain temporary, preliminary and/or permanent injunctive relief.

d. All Company Materials shall be the sole property of the Company. Consultant agrees that during the term of this Agreement, Consultant will not remove any Company Materials from the business premises of the Company or deliver any Company Materials to any person or entity outside the Company, without the Company's prior express written consent. Consultant further agrees that, immediately upon the Company's request and in any event upon completion of the Consulting Services, Consultant shall deliver to the Company all Company Materials, any documents, apparatus, equipment and other physical property or any reproduction of such property used in connection with the performance of the Consulting Services. At all times before or after completion of the Consulting Services, the Company shall have the right to examine any materials relating thereto to ensure Consultant's compliance with the provisions of this Agreement.

e. Consultant agrees to perform, during and after the term of this Agreement, all acts deemed necessary or desirable by the Company to permit and assist it, in evidencing, perfecting, obtaining, maintaining, defending and enforcing Rights in any and all countries. Such acts may include, but are not limited to, execution of documents and assistance or cooperation in legal proceedings. Consultant hereby irrevocably designates and appoints the Company and its duly authorized officers and agents, as Consultant's agents and attorneys-in-fact to act for and in behalf and instead of Consultant, to execute and file any documents and to do all other lawfully permitted acts to further the above purposes with the same legal force and effect as if executed by Consultant.

f. Consultant represents that performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by Consultant in confidence or in trust prior to the execution of this Agreement. Consultant has

not entered into, and Consultant agrees not to enter into, any agreement either written or oral that conflicts or might conflict with Consultant's performance of the Services under this Agreement.

g. The following information shall not be subject to the confidentiality requirements of Section 6: (1) information in the public domain through no action of Consultant in breach of this Agreement; or (2) information independently developed by Consultant, or (3) information acquired by Consultant from a third party.

7. TERMINATION. Except as provided in SECTION 10 below, this Agreement shall terminate and the obligations and covenants of the parties hereunder shall be of no further force and effect on the earliest to occur of the following events:

(a) The expiration of the Consulting Period;

(b) The liquidation or dissolution of the Company, or the transfer of all or substantially all of the assets of the Company, other than the transfer to an entity controlled by the Company;

(c) Thirty (30) days after a party ("Breaching Party") has received written notice from the other party of the Breaching Party's material breach of this Agreement; provided, however, that if such material breach is capable of being cured, this Agreement shall not terminate if the Breaching Party cures such breach within five (5) days of receiving such notice.

8. INDEPENDENT CONTRACTOR. The Consultant shall act solely in a consulting and advisory capacity hereunder and in consequence shall not have authority to act for the Company or to give instructions or orders on behalf of the Company or to make any decisions or commitments for or on behalf of the Company. The Consultant shall not be an employee of the Company but shall act in the capacity of an independent contractor. The Company shall not exercise direction or control over the Consultant in the performance of its consulting services under this Agreement. The Consultant shall be responsible for the withholding and payment of any and all federal, state, local or other tax payable in respect of this Agreement.

9. INDEMNIFICATION.

(a) The Consultant shall indemnify, defend and hold harmless the Consultant from and against all losses, liabilities, damages, costs and expenses of any nature whatsoever (including, without limitation, reasonable attorneys' fees and costs related thereto) which Consultant may suffer or incur as the result of the negligence or misconduct of the Company or its partners, shareholders, officer, directors, employees, affiliates, agents, representatives, attorneys, successors and assigns, in the performance of its obligation under this Agreement.

(b) the Company agrees that is shall at its sole expense at all times during the term of this Agreement secure and maintain adequate insurance coverage, including but not limited to, liability, negligence and malpractice of the Consultant associated with the performance of the Consulting Services.

10. SURVIVAL OF CERTAIN RIGHTS AND OBLIGATIONS. The rights and obligations of the parties hereto pursuant to Sections 6, 9 and 10 hereof, and the obligation of the Company to pay any and all Consulting Fees earned as of the termination of this Agreement and any reimbursable expenses payable to the Consultant as of such termination date, shall survive the termination of this Agreement.

11. NOTICES. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally against written receipt or by facsimile transmission with answer back confirmation or mailed (postage prepaid by certified or registered mail, return receipt requested) or by overnight courier to the parties at the following addresses or facsimile numbers:

If to the Consultant, to:

Facsimile No.: ---

If to the Company, to:

Digirad Imaging Systems, Inc.
9350 Trade Place
San Diego, CA 92126
Facsimile No.: (858) 578-1649
Attention: Chief Executive Officer

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this SECTION 11, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this SECTION 11, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this SECTION 11, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its

address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

12. OBLIGATIONS CONTINGENT ON PERFORMANCE. The obligations of the Company hereunder, including its obligation to pay the compensation provided for herein, are contingent upon the Consultant's performance of its obligations hereunder.

13. ENTIRE AGREEMENT. This Agreement, the Purchase Agreement and the documents executed in connection with the Purchase Agreement, supersede all prior discussions

and agreements among the parties with respect to the subject matter hereof and contain the sole and entire agreement between the parties hereto with respect thereto.

14. WAIVER. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. No waiver by any party hereto of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by law or otherwise afforded, will be cumulative and not alternative.

15. AMENDMENT. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

16. NO THIRD PARTY BENEFICIARY. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and the Company's successors or assigns, and it is not the intention of the parties to confer third-party beneficiary rights upon any other person or entity.

17. NO ASSIGNMENT; BINDING EFFECT. This Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and any successors or assigns of the Company. The Consultant shall not be entitled to assign its right, interest or obligations under this Agreement without the prior written consent of the Company, which consent shall not be reasonable withheld.

18. HEADINGS. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

19. SEVERABILITY. The Company and the Consultant intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. Accordingly, if a court of competent jurisdiction determines that the scope and/or operation of any provision of this Agreement is too broad to be enforced as written, the Company and the Consultant intend that the court should reform such provision to such narrower scope and/or operation as it determines to be enforceable. If, however, any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future law, and not subject to reformation, then (i) such provision shall be fully severable, (ii) this Agreement shall be construed and enforced as if such provision was never a part of this Agreement, and (iii) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by illegal, invalid, or unenforceable provisions or by their severance.

20. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts executed and performed in such Commonwealth, without giving effect to conflicts of laws principles.

21. ARBITRATION. The parties hereto agree that any and all disputes arise in connection with, or under the terms of this Agreement, shall be resolved through final and

binding arbitration. Binding arbitration will be conducted in Philadelphia, Pennsylvania in accordance with the rules and regulations of the American Arbitration Association. The Company will bear the cost of the arbitration filing and hearing fees, and the cost of the arbitrator. Each party will bear its own attorneys' fees, unless otherwise decided by the arbitrator. The parties hereto understand that the arbitration shall be instead of any civil litigation and that the arbitrator's decision shall be final and binding to the fullest extent permitted by law and enforceable by any court having jurisdiction thereof.

22. COUNTERPARTS. This Agreement may be executed in any number of counterparts and by facsimile, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first above written.

DIGIRAD IMAGING SYSTEMS, INC.,
a Delaware corporation

By: ----------
Name: ----------
Title: ----------

CONSULTANT

[SIGNATURE PAGE TO THE CONSULTING AGREEMENT]

ATTACHMENT A

DESCRIPTION OF CONSULTING SERVICES

1. TITLE

Radiation Safety Officer

2. MATERIALS LICENSE(S)

[LIST APPLICABLE LICENSE NUMBER AND DESCRIPTION]

3. DESCRIPTION OF SERVICES

a. Consultant along with radiation physicist is responsible for the oversight of the radiation protection program of the Company.

b. Consultant along with radiation physicist shall perform the services necessary to be qualified as a Radiation Safety Officer under the Materials License(s) and applicable laws, rules and regulations, including, without limitation, the following:

i. Identify radiation safety problems;

ii. Investigate radiation safety problems such as overexposures, accidents, spills, losses, thefts, unauthorized receipts, uses, transfers, disposals, mis-administrations, and other deviations from approved radiation safety practice and implement corrective actions as necessary;

iii. Initiate, recommend or provide corrective actions for radiation safety problems;

iv. Verify implementation of corrective actions; and

v. Retain records of all items listed under all applicable laws.

c. Consultant shall have sufficient authority, organizational

freedom, and management prerogative, to communicate with and direct personnel regarding applicable regulations and Materials License(s) provisions, to terminate unsafe activities involving byproduct materials and to perform all Consulting Services listed herein.

d. [ANY OTHER SERVICES MUTUALLY AGREED TO BY CONSULTANT AND COMPANY AND EVIDENCED BY A WRITTEN DOCUMENT ATTACHED TO AND MADE PART OF THIS AGREEMENT.]

EXHIBIT J

MMC SERVICES AGREEMENT

SERVICES AGREEMENT

THIS SERVICES AGREEMENT (the "Agreement") is made this 29th day of September, 2000 by and among:

1. DIGIRAD IMAGING SYSTEMS, INC., a Delaware Corporation with its principal place of business at 9350 Trade Place, San Diego, CA 92126-6334. (the "Company");

2. MEDICAL MANAGEMENT CONCEPTS, INC., a Pennsylvania Corporation with its principal place of business at 3223 Phoenixville Pike, Suite C, Malvern, PA 19355 ("MMC"); and

3. MR. JEFFERY MANDLER, in his individual capacity (Mr. Mandler).

WHEREAS:

A. MMC is in the business of providing medical billing and related services.

B. Mr. Mandler is the sole shareholder of MMC.

C. Mr. Mandler is also the sole shareholder of Nuclear Imaging Systems, Inc., a Pennsylvania corporation ("NIS"), which on August 4, 2000 commenced a voluntary chapter 11 case, identified as Case No. 00-19698 (the "NIS Bankruptcy Case") in the United States Bankruptcy Court for the Eastern District of Pennsylvania (the "Bankruptcy Court").

D. Mr. Mandler is himself a debtor and debtor in possession in a bankruptcy case (the "Mandler Case") pending before the Bankruptcy Court.

E. The Company is in the process of purchasing certain assets from NIS and/or its affiliate, Cardiovascular Concepts, P.C. ("CVC") as set forth in that certain Asset Purchase Agreement ("A/P Agreement") dated as of September 29, 2000, a condition to the effectiveness of which is both the approval of the sale to the Company of the assets described in the A/P Agreement by NIS and CVC free and clear of liens under 11 U.S.C. Section 363, and the execution and delivery of this Agreement.

F. MMC desires to provide, and the Company desires to purchase from MMC, the Services (defined below) for (1) an initial 3-year term as to sales, marketing and general operation services (and then month-to-month thereafter, unless terminated with or without cause), and (2) an initial 6-month term (and then month-to-month thereafter, unless terminated with or without cause) as to billing and collection services, in each case subject to the terms and conditions set forth in this Agreement. In addition, the Company desires to acquire and

MMC is willing to provide access to certain space and certain employees as more fully described below and in the exhibits attached hereto.

NOW WHEREFORE, for fair and valuable consideration, the receipt and adequacy of which are hereby acknowledged, it is hereby agreed as follows:

1. PROVISION OF SERVICES

1.1 During the Term of this Agreement and upon request of Company from time to time, MMC agrees to undertake and complete, on behalf of and under the direction of the Company, the services more particularly described

on EXHIBIT A attached hereto, which may be amended from time to time by mutual agreement of the parties hereto (the "Services").

1.2 As the sole source of compensation for providing the Services, the Company shall pay MMC in accordance with the pricing schedule set forth on EXHIBIT B attached hereto; PROVIDED THAT the Company agrees to pay to MMC on the Effective Date as an advance against fees earned the sum of $75,000 which prepayment shall be allocated evenly over the course of the ensuing 5 months, although if the Term of the Agreement is terminated as to either the Sales, Marketing, and Operations Services or as to the Billing and Collections Services as set forth in Section 6.3 below, then any unallocated prepayment may be allocated to the sums payable on account of the Services for which the Term has been terminated.

1.3 MMC will invoice the Company on a monthly basis for the Services provided to the Company. All payments by the Company to MMC for fees must be made within fifteen (15) days after the date of the invoice.

2. DUTIES OF MMC; WARRANTIES

2.1 MMC shall provide the Services:

(i) in a professional and workmanlike manner, as determined by the Company in its sole discretion;

(ii) in accordance with applicable laws and regulations; and

(iii) in strict accordance with the specifications and description of the Services set forth on EXHIBIT A attached hereto.

2.2 MMC warrants that it has adequate premises, equipment, knowledge, experience and competent personnel to carry out the Services pursuant to the terms and conditions of this Agreement and all applicable laws and regulations.

2.3 MMC shall maintain and furnish a current certificate of insurance relating to a general liability package policy covering accounts receivables, valuable papers and records, equipment, data processing, business income and extra expense. MMC agrees to keep such insurance in effect during the Term of this Agreement. MMC shall provide the Company with at least thirty (30) days prior written notice of any change in such insurance.

2.4 MMC shall be responsible for providing the Services as directed by the Company in a manner necessary to meet the day-to-day requirements of the operations of the Company. MMC is expressly authorized to perform only the Services as directed by the Company.

2.5 MMC shall employ, engage, supervise and terminate all management, administrative, clerical, secretarial and other non-professional personnel ("Administrative Personnel") as it decides are reasonably necessary for the day-to-day operations of MMC to perform the Services. All Administrative Personnel shall be compensated by MMC, shall be employees or agents of MMC, and shall not be, or be deemed or considered to be, employees or agents of the Company, or joint employees, or agents of the Company, for any purpose.

2.6 MMC shall complete and submit to patients or their health insurance plans or other third party payors, including Medicare and Medicaid, (collectively "Payors"), invoices for all services ("Technical Services"), provided by the Company to patients or customers in the name of, and for the account of, the Company. The invoices shall be completed on appropriate Payor billing and claim forms and in accordance with applicable Payor policies and procedures. MMC shall keep and maintain accurate separate books and records pertaining to the billings and collections relating to the Technical Services provided by the Company to patients and customers in a businesslike manner and in conformity with the requirements of Payors.

2.7 MMC's marketing activities on behalf of the Company shall be in compliance with all applicable laws and regulations and all ethical principals consistent with applicable industry standards.

2.8 MMC shall maintain an office and employ sufficient qualified employees and agents, including adequate sales staff, to assist in diligently performing all of its duties. MMC shall cause a qualified employee or representative to attend sales conferences and take advantage of technical training programs, if offered, by the Company, for such persons at MMC's expense.

2.9 MMC shall keep the Company informed as to any problems encountered with the Services and as to any resolutions arrived at for

those problems, and shall communicate promptly to the Company any and all modifications, operations changes, improvements of the Services, or new customer requirements suggested by any entity or person solicited by or making inquiries of MMC or by any employee or agent of MMC. MMC further agrees that the Company shall acquire and hereby assigns any and all right, title and interest in and to any such suggested modifications, design changes or improvements of the Services, without the payment of any additional consideration therefore either to MMC, its employees or agents, or to any customer of MMC.

2.10 At the Company's request, MMC shall promptly submit to the Company reports containing such pertinent information about MMC's customers and the Services and MMC's activity within any of the "Applicable Markets" defined in EXHIBIT B (all of which Applicable Markets are collectively referred to as the "Territory"). The Company may reasonably request information concerning customers and business volumes, financial

information and operating plans. MMC shall advise and assist the Company with respect to sales aids and furnish available information concerning competitive Services sold in the Territory.

2.11 At the Company's request, MMC will provide quarterly good faith forecasts and status reports on its efforts and anticipated orders.

2.12 MMC shall abide by the Company's policies regarding sales of its Services, including, without limitation, the Company's standard terms and conditions and the limited warranty delivered to the Company's customers, if any. MMC shall communicate such policies to customers and shall not make or imply any representations to customers which alter such policies. MMC shall not make any warranties to the customers with respect to the Services.

2.13 MMC understands that the Company shall establish the price of the Services to the Company's customers, and that the Company is not bound to any price with respect to an order until the Company has accepted such order and MMC will not imply or represent anything to the contrary to any person or entity.

2.14 MMC shall provide reasonable assistance to the Company in securing any licenses and permits for the sale and marketing of the Services in the Territory.

3. COLLECTIONS PROCEDURE

3.1 The Company shall establish, at its expense, a lock box ("Lock Box") in a financial institution selected by the Company. All billing and claim forms related to Technical Services provided by the Company to patients or customer shall name the address of the Lock Box as the only address for payment of accounts receivable pertaining to Technical Services ("Accounts Receivables") and name the Lock Box account ("Lock Box Accounts") as the only bank account for the deposit of payments on the Accounts Receivables. MMC shall notify all Payors that the address of the Lock Box is the only address for payment of Accounts Receivables pertaining to the Technical Services, and that the Lock Box Account is the only bank account for the deposit of payments on the Accounts Receivables.

3.2 If MMC shall receive directly any payments with respect to an Account Receivable, MMC shall hold the same in trust for the Company and shall immediately (i) deposit such payments into the Lock Box Account at the latest on the business day following the day on which MMC received such payments and (ii) notify the Company of its receipt and deposit of such payments to the Lock Box Account. In no event shall MMC have any right to any payments received or collected for or on behalf of the Company. MMC hereby assigns any and all of its rights, if any, to any payment received or collected for or on behalf of the Company to the Company and covenants not to encumber in any manner any such payments.

3.3 MMC shall reconcile receipts received and deposits made into the Lock Box and/or the Lock Box Account from the various Payors and account debtors on the Accounts Receivable against the sums billed to or invoiced to such Payors and account debtors and, on a monthly basis no later than the 15th calendar day for any month for the previous month ending, provide the Company with a report reconciling sums billed against amounts paid, balances owing and also including an accounts receivable aging report.

4. INDEMNIFICATION. MMC and Mr. Mandler hereby agree to jointly and severally indemnify and hold the Company and its respective agents and employees harmless from and against all suits, claims, actions, demands, losses, liabilities, damages, settlements, penalties, fines, lost profits, costs and/or expenses, including without limitation reasonable legal expenses and attorneys'

fees incurred by Company directly or indirectly as a result of the Services rendered by MMC under this Agreement. The Company hereby agrees to indemnify and hold MMC and Mr. Mandler and their respective agents and employees harmless from and against all suits, claims, actions, demands, losses, liabilities, damages, settlements, penalties, fines, lost profits, costs and/or expenses, including without limitation reasonable legal expenses and attorneys' fees incurred by either of them directly or indirectly as a result of the Company's conduct of the Mobile Business.

5. CONFIDENTIALITY/OWNERSHIP

5.1 MMC agrees to keep confidential and not disclose or use except in performance of its obligations under this Agreement, confidential or proprietary information relating to the Company's technology or business that MMC learns in connection with this Agreement and any other information received from the Company, including without limitation, to the extent previously, currently or subsequently disclosed to MMC or otherwise: information relating to products or technology of the Company or the properties, composition, structure, use or processing thereof, or systems therefor, or to the Company's business (including without limitation, computer programs, code, algorithms, schematics, data, know-how, processes, ideas, inventions (whether patentable or not), names and expertise of employees and consultants, all information relating to customers and customer transactions (including patient information) and other technical, business, financial, customer and product development plans, forecasts, strategies and information (all of the foregoing, "Confidential Information"). MMC shall not disclose the terms of this Agreement to any third party without the prior written consent of the Company. MMC shall use reasonable precautions to protect the Company's Confidential Information and employ at least those precautions that it would employ to protect its own confidential or proprietary information, which shall, in no event, be less than these measures which are commercially reasonable within the industry.

5.2 MMC shall notify its employees of their confidentiality obligations with respect to the Confidential Information and shall require all of its employees to sign an employee proprietary information and inventions agreement in a form reasonably acceptable to the Company. The confidentiality obligations of MMC and its employees shall survive the expiration or termination of this Agreement.

5.3 MMC acknowledges and agrees that due to the unique nature of the Company's Confidential Information, there can be no adequate remedy at law for any breach of its obligations hereunder, that any such breach may allow MMC or third parties to unfairly compete with the Company resulting in irreparable harm to the Company, and therefore, that upon any such breach or any threat thereof, the Company shall be entitled to appropriate equitable relief in addition to whatever remedies it might have at law and to be indemnified by MMC from any losses in connection with any breach or enforcement of MMC's obligations hereunder or the unauthorized use or release of any such Confidential Information. MMC will notify the Company in writing immediately upon the occurrence of any such unauthorized

release or other breach. Any breach of this Section 5 will constitute a material breach of this Agreement.

5.4 All information, documents and other materials created by MMC for the purposes of the Services to the Company are owned by the Company. Following completion of the Services, MMC shall return all such materials to the Company.

6. TERM AND TERMINATION

6.1 EFFECTIVENESS. The "Effective Date" of this Agreement shall be the date upon which each of the following conditions precedent to effectiveness is satisfied or waived in writing by the Company:

(i) This Agreement shall have been duly executed by all parties hereto;

(ii) The Bankruptcy Court shall have entered an order in the NIS Bankruptcy Case (which was consolidated for administrative purposes with the chapter 11 case of CVC) in form and substance satisfactory to the Company approving the sale of the assets described in the A/P Purchase Agreement to the Company free and clear of liens under Bankruptcy Code ss.363 and the time period for appeals shall have run without any appeal having been timely filed;

(iii) All conditions precedent to the effectiveness of the A/P Agreement shall

have been satisfied or waived in writing by the Company;

(iv) The "Employee Lease" and "Mark Building Lease" agreements attached hereto as Exhibits "C" and "D" respectively, shall have been duly executed by MMC and delivered to the Company;

(v) The accounts and Lock-Box arrangements described in Section 3 shall have been established and the Company shall have been granted (and is hereby granted) by MMC a lien and security interest of first priority in all such accounts, Lock Boxes and funds contained therein to secure the performance by MMC of its obligations hereunder.

6.2 TERM. This Agreement will take effect upon the Effective Date. The length of the term during which MMC must supply Services and the Company must compensate MMC therefor as set forth in EXHIBIT B (absent early termination for "cause" as set forth below) will vary as between the Services falling within the scope of the "Sales, Marketing, and General Operations Services" referred to on EXHIBIT A and the "Billing and Collections Services" described on EXHIBIT A as follows:

(i) SALES, MARKETING, AND GENERAL OPERATIONS SERVICES. MMC shall provided the Services falling under the heading "Sales, Marketing, and General Operations Services" as set forth on EXHIBIT A for the

"Sales Services Initial Term" spanning the period from the Effective Date until the first to occur of 36 calendar months after the Effective Date or October 31, 2003, unless terminated earlier by the Company for "cause" as set forth in Section 6.3 below. At the conclusion of the Sales Services Initial Term, the Term of the contract relating to "Sales, Marketing, and General Operations Services" referred to on EXHIBIT A shall continue from calendar month to calendar month unless terminated earlier by either party upon one calendar month's prior notice.

(ii) BILLING AND COLLECTIONS SERVICES. MMC shall provided the Services falling under the heading "Billing and Collections Services" as set forth on EXHIBIT A for the "Collections Services Initial Term" spanning the period from the Effective Date until the first to occur of 6 calendar months after the Effective Date or March 31, 2001, unless terminated earlier by the Company for "cause" as set forth in Section 6.3 below. At the conclusion of the Collections Services Initial Term, the Term of the contract relating to "Billing and Collections Services" referred to on EXHIBIT A shall continue from calendar month to calendar month unless terminated earlier by the Company upon one calendar month's prior written notice, and by MMC on two calendar month's prior written notice.

6.3 The Sales Services Initial Term, the Collections Services Initial Term, or any subsequent extensions of either one of them, may be terminated, at the Company's option (and the Company may elect to either (a) "commute" either or both of the Initial Terms into month-to-month terms, or (b) terminate this Agreement) at any time for "cause" without notice in the event:

(i) MMC ceases doing business for any reason or fails to adequately perform the Services as determined by the Company in the exercise of its reasonable discretion;

(ii) The Company is the successful purchaser for the so-called "Fixed Business" of NIS, and the Company elects to make offers of employment to a material number of employees

of MMC;

(iii) MMC suffers a change in control that is not consented to by the Company in its sole and absolute discretion or MMC attempts to assign this agreement to a third party without the consent of the Company in its sole and absolute discretion;

(iv) MMC fails to strictly comply with the provisions of Section 3, or in any way commingles the funds of the Company collected by MMC with the funds of any other person or entity, or if the Company fails to have 100% ownership of the funds in (and, as a prophylactic measure, a duly perfected, first priority security

interest in) the sums deposited into the Lock Box account and the funds collected by MMC on behalf of the Company under this Agreement;

(v) MMC or any employee, agent or representative of MMC commits any act in derogation of the Company interests in the funds collected by MMC on behalf of the Company or in derogation of the relationships between the Company and the persons or entities from whom such funds are being collected or in derogation of the Technical Services provided by the Company to patients or customers;

(vi) MMC fails to have at least as many sales people assigned to marketing efforts on behalf of the Technical Services provided by the Company, allocated among the existing territories, as were assigned to such territories as of date NIS filed its bankruptcy petition on behalf of NIS when it marketed such services to patients and customers; or

(vi) MMC knowingly commits or expressly permits any party to commit any breach of the confidentiality provisions of Section 5 hereof.

6.4 EFFECT OF TERMINATION.

(i) Termination or expiration of any Term relating to one of the two categories of Services provided hereunder shall not affect the Term for the second category of Services provided under this Agreement, and in any event, the termination of any Term of this Agreement will not affect Sections 4, 5, 7 and 9 of this Agreement, which will in all cases survive termination or expiration of any Term of this Agreement and this Agreement, regardless of the reason for termination.

(ii) Upon termination of the Terms of either of the categories of Services provided hereunder, MMC shall immediately return to the Company, all of the Company's proprietary and confidential information relating to that category of Services, together with any and all documents, notes and other materials including, without limitation, all copies and extracts of the foregoing and all documentation and copies thereof, along with all documentation necessary or appropriate for the Company to perform such Services itself or through a third party.

7. ASSIGNMENT

7.1 MMC shall have no right or ability to assign, transfer, subcontract or sub-license any obligations or benefit under this Agreement without the prior written consent of the Company. The Company may assign and transfer this Agreement and its rights and obligations hereunder to any affiliate of the Company or to any third party who succeeds to all or substantially all of its business, stock or assets relating to its performance under this Agreement.

8. PUBLICITY

8.1 MMC will not disclose that the Company has retained MMC to provide the Services herein without the prior written consent of the Company, except that it is acknowledged that this Agreement will be available to the public by virtue of the records and filings with the Bankruptcy Court in the NIS Bankruptcy Case, and the Mandler Bankruptcy Case.

9. RECRUITING

9.1 In the event that the Company requests MMC, in writing, to recruit persons (each a "Recruit") to become employees of the Company, and such Recruits identified by MMC pursuant to such written request are (a) not currently employed by MMC, (b) which are not independent contractors of MMC, (c) which have not previously sought employment with the Company or any affiliate of the Company, and/or (d) which were not separately recruited by anyone acting by or on behalf of the Company or any affiliate of the Company, and if any such Recruit is then, as a result of such recruiting effort by MMC, employed by the Company and remains in the employ of the Company for a continuous 365-day period, the Company shall pay to MMC a "finders fee" equal to 10% of such Recruit's first year salary, excluding bonuses.

10. MISCELLANEOUS

10.1 The failure of either party to enforce its rights under this agreement at any time for any period shall not be construed as a waiver of such rights.

10.2 This Agreement, together with the exhibits hereto, represent the sole agreement between the parties with respect to the subject matter hereof. This Agreement supersedes all prior or contemporaneous agreements or discussions between the parties with respect to the subject matter hereof.

10.3 No changes or modifications or waivers are to be made to this Agreement unless evidenced in writing and signed for and on behalf of both parties.

10.4 Nothing contained in this Agreement will be deemed to create, or be construed as creating, a joint venture or partnership between the parties. Neither party is, by virtue of this Agreement or otherwise, authorized as an agent or legal representative of the other party. Neither party is granted any right or authority to assume or to create any obligation or responsibility, express or implied, on behalf or in the name of the other party, or bind such other party in any manner. The parties expressly agree and understand that the employees of MMC shall in no way be deemed to be employees of the Company and shall not be entitled to any

compensation or benefits other than that described herein. MMC agrees that it will inform its employees of the foregoing.

10.5 In the event that any provision of this agreement shall be determined to be illegal or unenforceable, that provision shall be limited or eliminated to the minimum extent necessary so that this Agreement shall otherwise remain in full force and effect and enforceable.

10.6 This agreement shall be governed in all respects by the laws of the Commonwealth of Pennsylvania without regard to its conflict of laws provisions, and both parties agree that the sole venue and jurisdiction for disputes arising from this Agreement shall be the appropriate state or federal court located in Philadelphia, Pennsylvania and both parties hereby submit to the jurisdiction of such courts.

10.7 All patient records, which include, but are not limited to, test results and other testing information, are and shall remain the sole property of the Company. The Company and MMC agree that all patient records shall be regarded as Confidential Information. 10.8 This Agreement may be executed in counterparts, each of which will be deemed an original and all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the date first above written.

DIGIRAD IMAGING SYSTEMS, INC.

BY:

NAME:

TITLE:

MEDICAL MANAGEMENT CONCEPTS, INC.

BY:

NAME:

TITLE:

JEFFREY MANDLER

EXHIBIT A

DESCRIPTION OF SERVICES

MMC shall provide, in addition to any additional services agreed upon by the parties from time to time or reasonably necessary to effectuate the Services set forth below:

CATEGORY 1: BILLING AND COLLECTION SERVICES.

MMC shall provide the Company with Medical Billing and Collection Services as described in this Agreement, and (a) any other services as may be reasonably requested from time to time by the Company relating to such Medical Billing and Collection Services , and (b) any other services which may be necessary to performing Medical Billing and Collection Services. Among the Services that fall within this Category 1 are the Services listed in Sections 2.6 and 3 of the Agreement.

CATEGORY 2: SALES, MARKETING AND OPERATIONS SERVICES.

a. SALES & MARKETING. .MMC shall provide sales and marketing services as directed by the Company. MMC shall provide a direct sales representative committed to the sales and marketing activities of the Company in each of the following States: New Jersey, Pennsylvania, Maryland, North Carolina, Delaware, and Washington D.C. MMC shall also provide a director of sales and a Vice President of Sales to administer the sales and marketing activities of the Company. Such sales and marketing services shall be in a manner reasonably acceptable to the Company.

b. OPERATIONS SERVICES. MMC shall provide general operations services, including scheduling, coordination, contract coordination, health physics and general operational support.

c. OTHER. Among the Services that fall within this Category 2 are the Services listed in Sections 2.7, 2.10, 2.11 and 2.14 of the Agreement.

EXHIBIT B

PAYMENT FOR SERVICES

In consideration of the two categories of Services provided to the Company by MMC as identified in Exhibit A, the Company shall pay MMC, on a monthly basis the following:

FOR BILLING AND COLLECTIONS SERVICES (CATEGORY 1):

The Company shall pay to MMC a fee equal to five percent (5%) of "Estimated Net Revenue" as that term is defined below, which Estimated Net Revenue figure is subject to adjustment as set forth below.

FOR SALES, MARKETING AND OPERATIONS SERVICES (CATEGORY 2):

So long as the Sales Services Initial Term (or any month to month extensions thereof) is in effect, the Company shall pay MMC as and when set forth in Section 1.3 of the Agreement, a fee equal to twelve and one-half percent (12.5%) of the "Estimated Net Revenue" (as that term is defined below) attributable to the applicable month for which payment is due, which Estimated Net Revenue figure is subject to adjustment as set forth below.

ADJUSTMENT OF PAYMENTS DUE TO ACTUAL COLLECTIONS:

Sixty days after the end of each calendar quarter, the Estimated Net Revenue figures calculated for each month during that quarter will be reviewed and compared to the actual collections on account of the billings made during the months in such quarter. If the payments to MMC over the course of the quarter (in the aggregate) for either category of Services was too low (an "Underpayment") because the Estimated Net Revenue figure in each of the three month in the quarter was less than the actual collections received on account of billings generated in those months, then the Company shall pay to MMC the amount of the Underpayment within the next 15 days (unless there remains outstanding some portion of the prepayment provided for in Section 1.3, in which case the Underpayment amount will be set off to reduce the pre-payment balance). If the payment to MMC based on the Net Estimated Revenue figures during the course of the quarter was too high (an "Overpayment"), then the Overpayment amount shall be deducted from any sums otherwise due or coming due from the Company to MMC or, if none (such as, for example, because the Term of the Agreement has ended) upon demand by the Company.

If after the conclusion of the 60 day period referred to above, there remains any uncollected sums, MMC shall continue to maintain the records for these accounts and when and if any such accounts ("Delinquents Accounts") are collected by MMC, MMC shall be entitled to receive (unless the Company is entitled to an offset of some type) 12.5% of the amount actually collected if MMC is still providing Sales Marketing and Operations Services, and 5% of the amount actually collected if MMC is still providing Billing and Collections Services. In the event a third party other than MMC has collected these sums, the amount payable to the third party shall be deducted from sums otherwise payable to MMC.

ADJUSTMENTS DUE TO OPEN TERRITORIES.

Should there be a sales territory for which a sales representative is currently responsible that is later vacated for a period longer than 30 days (an "Open Direct Sales Territory"), payment in accordance with the foregoing formula will be reduced in an amount equal to the salary and benefits that would have been payable to such a representative pro rated for the full amount of time (including the 30-day period that triggered this remedy) that the territory is "open." Should MMC fill the vacant position, MMC must give notice to the Company of the replacement and if the Company has not obtained substitute coverage for the territory, the payments to MMC will return to the formula set forth above.

DEFINITIONS:

"ESTIMATED NET REVENUE" means an estimation performed on or immediately following the end of any given calendar month of the net revenue generated during such month then ending determined by calculating the gross sums billed to customers of the Mobile Business by MMC for that particular month in the "Applicable Markets" defined below, less "Contract Allowances" (defined below) and "Bad Debt Losses" (as defined below) as determined from time to time for the particular month.

"APPLICABLE MARKETS" refers the markets in the Commonwealth of Pennsylvania and the States of New Jersey, Maryland, North Carolina, and Delaware and in the District of Columbia.

"CONTRACT ALLOWANCES" means an amount based on a percentage agreed upon by MMC and the Company and based on MMC's historical performance by which gross billings are to be reduced due to discounts and contractual reductions. Contract Allowances may be adjusted monthly based on MMC's historical performance.

"BAD DEBT ALLOWANCES" means an amount based on a percentage agreed upon by MMC and the Company and based on MMC's historical experience by which gross billings are to be reduced due to poor payment history or creditworthiness of customers. Bad Debt Allowances may be adjusted monthly based on MMC's historical experience and the customer mix.

EXHIBIT C

EMPLOYEE LEASE

EMPLOYEE LEASE AGREEMENT

This EMPLOYEE LEASE AGREEMENT is made and entered into as of this 29th day of September, 2000 by and between Digirad Imaging Systems, Inc., a Delaware corporation, with its principal offices located at 9350 Trade Place, San Diego CA 92126-6334 (hereinafter referred to as "CLIENT") and Medical Management Concepts, Inc., a Pennsylvania corporation having its principal offices located at The Mark Building, 3223 Phoenixville Pike, Suite C, Caller Box 4002, Malvern, PA 19355 (hereinafter referred to as "MMC.")

WHEREAS, MMC and CLIENT are parties to that certain "Services Agreement" (the "MMC Services Agreement") dated as of the date hereof;

WHEREAS, CLIENT desires, for the purpose of staffing, healthcare professionals to fill positions on a temporary basis for coverage as requested on an as-needed basis;

WHEREAS, MMC is willing to provide healthcare professionals to CLIENT to meet CLIENT's temporary staffing needs;

WHEREAS, on occasion MMC may have a need to utilize healthcare professionals to meet its own staffing needs on a temporary basis;

WHEREAS, CLIENT may, but is not obligated to, provide healthcare professionals employed by it to MMC to meet MMC's temporary staffing needs;

THEREFORE, for fair and valuable consideration, the receipt and adequacy of which are hereby acknowledged, CLIENT and MMC agree as follows:

I. MMC'S RESPONSIBILITIES.

1.1 MMC will provide healthcare professionals possessing the requisite skills and qualifications to fill specified positions, as defined in writing by CLIENT.

1.2 MMC will verify that candidate has required experience and licensure as defined by CLIENT for specified position.

1.3 MMC will provide CLIENT with documentation demonstrating that healthcare professional is fully licensed or certified, or both, dependent upon position requirements, to perform those duties required for the specific position and is knowledgeable about the current standards of practice for the specified position.

1.4 MMC will provide CLIENT with certificates of Professional Liability Insurance and Worker's Compensation Insurance covering healthcare professional, in nature and amounts satisfactory to CLIENT.

1.5 MMC will be responsible for all OSHA training, occupational exposure instruction, current PPD and Hepatitis B testing for all healthcare professionals to be provided by it to CLIENT under this Agreement.

1.6 MMC will be responsible for all compensatory payments, associated taxes or other governmental payments due to or on behalf of healthcare professionals provided by it to CLIENT during the term of the Agreement. MMC agrees and understands that healthcare professionals provided by it to CLIENT are not employees of CLIENT, but rather are employees of MMC for purposes of state and federal tax and any other required withholding, as well as for purposes of any health or other benefits plans, stock plans, 401(k) plans or any other benefits or programs, and any state or federal law or regulation covering employees.

1.7 MMC will abide by all state and federal wage and hour laws, including properly classifying personnel provided by it to CLIENT. MMC also agrees that it will comply with the provisions of the Immigration Reform and Control Act ("IRCA") in verifying each healthcare professional's right to work in the United States, and will comply with all other applicable labor and employment laws and regulations.

1.8 MMC represents and warrants that personnel provided by it to CLIENT will not be bound by, and will not enter into, any oral or written agreement with any other party that conflicts in any way with obligations under this Agreement or any agreement made or to be made in connection herewith. CLIENT reserves the right to require personnel provided to it by MMC, as a condition to providing services to client, to execute a separate agreement

confirming that no conflict of interest exists.

1.9 MMC understands and agrees that personnel provided by it to CLIENT will be expected to adhere to CLIENT's policies regarding workplace conduct and may be required, as a condition to providing services to client, to execute a non-disclosure agreement concerning CLIENT's proprietary information and/or inventions.

1.10 MMC agrees that, at all times during and after the term of this Agreement, it will hold protected information in strictest confidence; will not disclose protected information to any third party without the written consent of CLIENT's CEO; will take all reasonable steps to safeguard protected information; and will not use protected information for any purpose other than supplying personnel to provide services for CLIENT. As noted above, CLIENT reserves the right to require personnel who are to be provided to it by MMC under this Agreement, as a condition to providing services to CLIENT, to execute a separate agreement regarding the safeguarding of protected information. Information is "protected information" where it consists of:

- information that CLIENT considers to be proprietary and/or confidential and which was previously or is hereafter disclosed or made available to MMC by CLIENT, including information relating to CLIENT or its business, products,

patients or employees that becomes available to MMC due to MMC's access to CLIENT's property, products, patients or employees; or

- information that has been or is created, developed, conceived, reduced to practice or discovered by MMC (alone or jointly with others, including MMC's personnel) using any protected information or any property or materials supplied to MMC or MMC's personnel by CLIENT; or

- information that was or is created, conceived, reduced to practice, discovered, developed by, or made known to the particular employee of MMC that has been utilized by CLIENT (alone or jointly with others) during the period that such employee was utilized by CLIENT during his or her assignment with CLIENT.

By way of illustration but not limitation, protected information includes: inventions, discoveries, developments, improvements, trade secrets, know-how, ideas, techniques, designs, processes, formulae, data and software (collectively, "inventions"); plans for research, development, new products, marketing and selling; budgeting and financial information; production and sales information including prices, costs, quantities and information about suppliers and customers; information about business relationships and business plans and projections; and information about skills and compensation of CLIENT's employees, consultants or other agency personnel. The use and disclosure restrictions in this section shall also apply to proprietary or confidential information of a third party, including but not limited to patients, received by CLIENT and disclosed to MMC.

II. CLIENT'S RESPONSIBILITIES.

2.1 CLIENT will provide a written job description to MMC defining education, training, job experience and any special skills required for the position to aid MMC in choosing qualified candidates.

2.2 CLIENT will accept a healthcare professional if s/he meets the qualifications for the specific position requested as defined by CLIENT in its written job description; provided that CLIENT shall have the right to refuse where CLIENT has determined that the provided candidate is not qualified for the position requested. If CLIENT feels a healthcare professional does not meet the job qualifications from job description provided, CLIENT will notify MMC in writing. MMC will then provide another healthcare professional as a replacement.

2.3 CLIENT will notify the MMC representative promptly in writing of any unsatisfactory performance or conduct of a provided healthcare professional.

2.4 CLIENT will use the provided healthcare professional for all scheduled hours. MMC requires a four (4) hour minimum charge per scheduled day, unless specifically stated otherwise in this Agreement. The minimum four (4) hour charge will apply to CLIENT if cancellation notification is not received by MMC within twenty-four (24) hours prior to the scheduled start time.

2.5 CLIENT will provide appropriate work schedule to the MMC representative at least one (1) week in advance, unless needed time is specifiable, e.g. every Wednesday.

2.6 CLIENT must notify MMC in writing at least four (4) weeks before a scheduled holiday if coverage will be needed.

2.7 CLIENT will take no steps to recruit as its own employees persons who are provided to the CLIENT by MMC during the term of this Agreement, except upon written approval and authorization of MMC or as otherwise agreed in writing by the parties. CLIENT understands that MMC employees are assigned to the CLIENT to render specific services. CLIENT further acknowledges the considerable expense incurred by MMC to advertise, recruit, interview, evaluate, reference check and supervise its employees. Accordingly, CLIENT may not hire MMC supplied personnel, or contract for services through another provider to obtain the services of any MMC personnel who had been provided by MMC during the term of this Agreement to CLIENT, until one (1) year following the date this Agreement expires or is terminated.

2.8 If CLIENT is discovered to have breached section 2.7, MMC shall be entitled to a payment of 30% of the gross annual salary paid to the healthcare professional by MMC as liquidated damages for each such breach. This remedy shall be in addition to, and not in limitation of, any additional rights, remedies, or damages, to which MMC is or may be entitled at law or in equity. The payment of liquidated damages shall not be construed as a release or waiver by MMC of the right to prevent such violation in equity or otherwise.

III. PAYMENT.

3.1 CLIENT shall pay MMC based on the following rates and terms:

3.1.1 MMC shall bill CLIENT at the hourly rate as follows:

Nuclear Medicine Technologist	$30.00 - $35.00
Nuclear Medicine Technologist With Supervisory Experience	$35.00 - $40.00
Cardiac Stress Nurse RN	$30.00 - $40.00
Cardiac Stress Nurse LPN	$25.00 - $35.00
Driver	$15.00 - $20.00

3.1.2 MMC will guarantee the above rates for the effective period of this Agreement. MMC reserves the right to notify CLIENT in writing thirty (30) days prior to renewal of any rate changes.

3.1.3 Hours worked shall consist of the time the healthcare professional begins and ends the project or task for which he or she is to be utilized by CLIENT (subject to any applicable minimums) as demonstrated on documentation provided to the CLIENT by and signed by an authorized representative of CLIENT, inclusive of any travel time if in a company van.

IV. INVOICING.

Invoicing will be done on a monthly basis and is due upon receipt. Interest on all accounts receivable over sixty (60) days will be 1.75 per cent per month (21% per annum). Hours will be rounded to the nearest quarter hour for billing purposes. A 2.5 percent discount will be given if payment is received within ten (10) days of the invoice.

V. HOLIDAYS.

Holidays are billed at 1 1/2 times the normal hourly rate. The holiday begins at the start of the day shift and continues through the entire night shift. The recognized holidays are as follows:

New Year's Day	Thanksgiving
Memorial Day	Day after Thanksgiving
July 4th	Christmas Eve Day
Labor Day	Christmas Day

VI. OVERTIME.

Overtime billing at 1 1/2 times the normal hourly rate will be charged when the same healthcare professional works over forty (40) hours per billing week for CLIENT. MMC understands and agrees that the healthcare professionals provided by it to CLIENT are not to work hours in excess of forty in one week unless requested or authorized to do so in writing by CLIENT.

VII. NONPAYMENT.

In the event of nonpayment of any amounts owing under this agreement, CLIENT agrees to pay all reasonable attorney's fees and legal expenses, incurred by MMC, in connection with the collection of such amounts, within the limits provided by applicable state law.

VIII. TERMINATION.

8.1 This Agreement shall terminate as and when the MMC Services Agreement terminates.

8.2 Upon termination of this Agreement, as provided above, neither party shall have any further obligations accruing after the date of termination, including, without limitation, payment of compensation for provision of personnel, except for those obligations incurred prior to termination.

IX. INDEMNIFICATION.

9.1 CLIENT hereby agrees to indemnify, defend and hold harmless MMC, its officers, directors, employees, agents, successors and assigns (each, an "MMC Indemnitee") for

and against any and all liabilities, losses, damages, judgements, deficiencies, fines, penalties, settlements and expenses (including, but not limited to, reasonable attorneys' fees, expert fees and other costs of defense) which such MMC Indemnitee suffers and which arises from any act or omission by CLIENT and/or any one or more of CLIENT'S directors, employees, agents, successors and assigns, and which is alleged or determined to be negligent, reckless, intentional, or in violation of law or regulation in connection with this Agreement. CLIENT'S obligations hereunder shall apply whether or not MMC Indemnitee is determined or alleged to be solely, jointly and/or severally liable.

9.2 MMC hereby agrees to indemnify, defend and hold harmless CLIENT, its officers, directors, employees, agents, successors and assigns (each, a "CLIENT Indemnitee") for and against any and all liabilities, losses, damages, judgements, deficiencies, fines, penalties, settlements and expenses (including, but not limited to, reasonable attorneys' fees, expert fees and other costs of defense) which such CLIENT Indemnitee suffers and which arises from any act or omission by MMC and/or any one or more of MMC'S directors, employees, agents, successors and assigns, and which is alleged or determined to be negligent, reckless, intentional, or in violation of law or regulation in connection with this Agreement. MMC'S obligations hereunder shall apply whether or not CLIENT Indemnitee is determined or alleged to be solely, jointly and/or severally liable.

X. MISCELLANEOUS.

10.1 The term of this Agreement may be modified or extended upon the mutual written agreement of the parties.

10.2 CLIENT and MMC agree that nothing in this agreement shall be construed as creating an employment relationship between CLIENT and healthcare professionals; nor is this Agreement intended to create an agency relationship between CLIENT and MMC . In other words, neither of the parties hereto nor any of their respective representatives or employees shall be construed to be the agent, the employer, representative or employee of the other.

10.3 Neither party may assign any of its rights or delegate any of its responsibilities without prior consent of the other, which consent shall not be unreasonably withheld.

10.4 Neither party will discriminate on the basis of race, color, sex, creed, national origin, age, handicap/disability, sexual preference, military status or any other basis prohibited by state and/or federal law. MMC is an equal opportunity employer.

10.5 This Agreement has been negotiated, executed and is to be performed in and shall be governed by the laws of the Commonwealth of Pennsylvania.

10.6 This is the entire agreement between the parties with regard to the matters set forth herein. There are no third party beneficiaries of this Agreement. This Agreement is in addition to the rights and obligations of the parties set forth in the MMC Services Agreement which deals with matters other than those set forth herein.

10.7 All notices to be given by either party to the other shall be in writing and be sent by certified mail, postage prepaid, return receipt requested or by recognized courier service, and

shall be deemed given on the date so mailed to the address of the party to whom

given. For purposes of this Agreement, notices to be given to MMC shall be delivered to:

Medical Management Concepts, Inc.
The Mark Building
3223 Phoenixville Pike
Suite C, Caller Box 4002
Malvern, PA 19355

And notices to CLIENT shall be delivered to:

Digirad Imaging Systems, Inc.
9350 Trade Place
San Diego, CA 92126
Facsimile No.: (858) 549-7714
Attention: Chief Executive Officer

XI. CLIENT'S PROVISION OF PERSONNEL TO MMC.

As noted in the Recitals, it is contemplated by the parties that from time to time, MMC may desire to utilize healthcare professionals who are employed by CLIENT to meet MMC's temporary staffing needs. If written request for such staffing is made by MMC to CLIENT, CLIENT may, but is not required to, provide its own healthcare professionals to MMC to meet such temporary staffing needs. If CLIENT does in fact provide personnel to MMC, then the terms of this Agreement (including the rates of compensation) shall apply and (i) MMC shall have all the rights and responsibilities of CLIENT, as specified herein, with respect to the engagement pursuant to which CLIENT provides personnel to MMC, and (ii) CLIENT shall have all the rights and responsibilities of MMC, as specified herein, with respect to the engagement pursuant to which CLIENT provides personnel to MMC.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the date first above written.

DIGIRAD IMAGING SYSTEMS, INC.

BY: ----------

NAME: ----------

TITLE: ----------

MEDICAL MANAGEMENT CONCEPTS, INC.

BY: ----------

NAME: ----------

TITLE: ----------

EXHIBIT D

MARK BUILDING LEASE

SUB-LEASE AGREEMENT

Medical Management Concepts, Inc., a Pennsylvania corporation ("MMC") agrees to sub-lease to Digirad Imaging Systems, Inc. a Delaware corporation (Digirad") space within the premises located at The Mark Building 3223 Phoenixville Pike, Suite C. Malvern, PA 19355 (the "Mark Building") for the use of conducting business in the ordinary course of the administration of Digirad's cardiovascular medical testing business to be performed by Digirad or its designated employees or agents at the Mark Building. The leased area (the "Leased Area") shall encompass as much square footage of the Mark Building required by Digirad not to exceed five hundred (500) square feet, together with access to all common spaces and a non-exclusive easement for egress and ingress

to leased premises over the existing streets, driveways and rights-of way in connection with the Mark Building.

a. The term of this lease shall be co-extensive with that certain "Services Agreement" made September 29, 2000 by and among Digirad, MMC, and Jeffrey Mandler in his individual capacity. The Leased Area shall be utilized up to seven day(s) per week in accordance with Digirad's requirements.

b. Digirad shall have the right to terminate the lease at any time by giving MMC thirty (30) days written notice.

c. No rent or any other fees shall be owing by Digirad to MMC under this agreement because it is acknowledged and agreed that the compensation and other fees paid to MMC under the Services Agreement referenced in section a. hereof also compensate MMC for this Sub-Lease Agreement.

d. Digirad and its employees and agents shall be permitted to use any and all utilities associated with the leased and common space, as well as computers, printers, office supplies, facsimile machines, telephones, and other items reasonably necessary to the conduct of Digirad's business. All such items shall be provided by MMC at no cost to Digirad.

e. MMC and MMC's agents shall have the right to enter the leased premises at all reasonable times, but shall not interfere with Digirad (or any employees or agents of Digirad) or the business operations of Digirad.

f. MMC shall not be responsible for loss of or damage to or theft of the contents of the Leased Area belonging to MMC, except in the case of willful or negligent acts of MMC or its agents, guests, or employees.

g. MMC agrees to maintain policies of comprehensive general liability insurance with regard to the Leased Area.

h. Digirad shall not have the right to sublease, assign, mortgage or pledge the Leased Area without first obtaining the written consent of MMC.

i. MMC agrees to cooperate with Digirad and to provide Digirad with any and all things or consents reasonably necessary to enable Digirad to use the Leased Area in order for Digirad to operate its business. MMC agrees to execute any additional documents requested by Digirad to effectuate the intent of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Sub-Lease Agreement to be duly executed as of September 29, 2000.

Medical Management Concepts, Inc.	Digirad Imaging Systems, Inc.
By:_____	By:_____
Its:_____	Its:_____

EXHIBIT K

OMITTED

EXHIBIT L

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT ("Agreement"), dated as of September 29, 2000, is entered into by and among DIGIRAD IMAGING SYSTEMS, INC., a Delaware corporation (the "Company") and Jeffrey Mandler, an individual (the "Consultant").

WHEREAS, Jeffrey Mandler ("Mandler") is the principal and sole shareholder of NUCLEAR IMAGING SYSTEMS, INC. ("NIS") which is a debtor and

debtor in possession in chapter 11 case No. 00-19698 and is also the principal of Cardiovascular Concepts, P.C. ("CVC") the debtor and debtor in possession in chapter 11 case no. 00-19697, both of which chapter 11 cases have been consolidated together for administrative purposes (together, the "Bankruptcy Case"), and both of which are pending in the United States Bankruptcy Court for the Eastern District of Pennsylvania (the "Bankruptcy Court");

WHEREAS, Mandler is himself a debtor in a chapter 11 case (the "Mandler Case") before the Bankruptcy Court;

WHEREAS, NIS and CVC have entered into an asset purchase agreement (the "A/P Agreement") which has been approved by the Bankruptcy Court and by which the Company has purchased the "Mobile Business" from NIS and CVC;

WHEREAS, the Company desires the Consultant to provide the services described herein and in the Attachments hereto, and the Consultant desires to provide such services to the Company, on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and the Consultant hereby agree as follows:

1. TERM. The Company hereby retains the Consultant as an independent contractor to provide the Consulting Services (defined below) to the Company for a period of three (3) years (the "Initial Term") commencing on the Commencement Date (defined below), subject to termination as and when set forth in Section 10. This Agreement shall automatically renew for additional six (6) month terms (each an "Subsequent Period") unless either party has provided the other party with notice of its intent not to renew, at least thirty (30) days prior to the end of the Initial Period or any Subsequent Period, as the case may be, or unless terminated as set forth in Section 10. The Initial Period and all Subsequent Periods, if any, shall collectively be referred to herein as the "Consulting Period." The term "Commencement Date" shall mean the date when all of the following are true: (a) all the conditions precedent to the effectiveness of that certain Asset Purchase Agreement between the Company, NIS and CVC dated as of September 29, 2000 have been satisfied, including the execution and delivery to the Company by Consultant of that certain "Non-Competition and Non-Disclosure Agreement" in the form of Exhibit "E" to the Asset Purchase Agreement (the "Non-Competition Agreement"); (b) the

"Services Agreement" between Medical Management Concepts, Inc. ("MMC") and the Company has been fully executed and all conditions precedent to its effectiveness have been satisfied; (c) this Agreement has been fully executed, and (d) the Company (in the exercise of its reasonable discretion) has no insecurity as to the enforceability of this agreement by the Company.

2. NATURE OF CONSULTING SERVICES. During the Consulting Period, the Consultant shall perform such services for the Company as may be requested from time to time by the Company, including, but not limited to, those services set forth in Attachment A hereto (the "Consulting Services"). The Consultant shall report directly to the Chief Executive Officer (or his designee) of the Company and shall provide the Consulting Services in accordance with the instructions of the Chief Executive Officer of the Company.

3. TIME AND EFFORT. The Consultant shall provide the Consulting Services personally at such times and locations as shall be requested by the Company; provided, however, that under no circumstances shall Consultant spend less than sufficient time to perform the services required and described in Attachment A and all applicable laws, rules and regulations relating to the Consulting Services. The Consultant shall be available at all times during the normal business hours of the Company to provide the Consulting Services by telephone or in person.

4. METHOD OF PERFORMING SERVICES.

a. PERFORMANCE OF OBLIGATIONS BY THE CONSULTANT. Subject to the terms of this Agreement, the Consultant and the Company shall together determine the method, details and means of performing the Consulting Services to be provided under this Agreement. Except as set forth in the description of the Consulting Services on Attachment A, the Consultant shall have no authority to obligate or incur on behalf of the Company any expense, liability or obligation, or to enter into any contract on behalf of the Company with respect to any expense, liability or obligation, without the prior written approval of the Company. The Consultant shall in all respects perform the Consulting Services required to be performed by the Consultant hereunder in a diligent and competent manner and shall comply with all laws and regulations applicable thereto.

b. COOPERATION BY THE COMPANY. The Company shall provide access to all documents and other information reasonably necessary to enable the Consultant to perform the Consulting Services under this Agreement. In the event that the Consultant deems it appropriate to perform on

the Company's premises any or all of its duties hereunder, the Company shall furnish office space on its premises for use by the Consultant during the Consulting Period for such purposes.

c. ACKNOWLEDGEMENT OF REPORTING RELATIONSHIPS. The Consultant further acknowledges and agrees that all advice, recommendations and other communications between the Consultant and the Company contemplated hereunder will be made between the Consultant and the Chief Executive Officer of the Company, or such other personnel as shall be designated by the Chief Executive Officer.

d. CERTIFICATION AND TRAINING. The Consultant represents and warrants that he is familiar with the business of providing mobile nuclear imaging services.

e. USE OF NAMES. In its efforts, Consultant will use the Company's then-current names for the Services (but will not represent or imply that he or any other person or entity other than the Company is the Company or is a part of the Company and will obtain the Company's prior written approval of any such use) and will not add to, delete from or modify any sales or marketing documentation or forms provided by the Company, except with the prior written consent of the Company. Consultant will not otherwise use or register (or make any filing with respect to) any trademark, name or other designation relevant to the subject matter of this Agreement anywhere in the world. Consultant will not contest anywhere in the world the use by the Company or use authorized by the Company of any trademark, name or other designation relevant or similar to the subject matter of this Agreement or application or registration therefor, whether during or after the term of this Agreement. Consultant acknowledges and agrees that Consultant has no interest in or right to the Company's names, designations or trademarks, or any label or design or other marks used in connection with the Company or the Services. Consultant further acknowledges and agrees that all of its use of such trademarks, names or other designations shall inure to the benefit of the Company.

5. COMPENSATION.

a. STOCK INCENTIVES. As an inducement to Consultant to enter into this Agreement and the Non-Competition Agreement, and to perform the Consulting Services in an exceptional manner, Consultant shall receive common stock in DIGIRAD CORPORATION, a Delaware corporation ("Digirad"), the parent corporation of the Company up to an aggregate number of 150,000 shares, provided Consultant meets the terms and conditions of the "earn out" criteria described below:

"EARN OUT" CRITERIA. If the "Revenue" (defined below) actually collected by the Company on account of the Mobile Business acquired by the Company from NIS and CVC pursuant to that certain Asset Purchase Agreement dated as of September 29, 2000 exceeds $5,500,000 during the first 12 calendar months of the Consulting Period, Consultant shall receive 50,000 shares of common stock. If such Revenue as is collected by the Company during the second 12 calendar-month period of the Consulting Period exceeds the actual Revenue collected during the first 12 calendar-month period of the Consulting Period by at least 10%, Consultant shall receive an additional 50,000 shares of common stock of Digirad. If such Revenue as is collected by the Company during the third 12 calendar-month period of the Consulting Period exceeds the actual Revenue collected during the second 12 calendar-month period of the Consulting Period by at least 10%, Consultant shall receive an additional 50,000 shares of common stock of Digirad for a potential aggregate of 150,000 shares. If the Revenue collected in the second 12 months of the Consulting Period is insufficient to entitle Consultant to the second tranche of $50,000 shares of the Company, Consultant shall be eligible during the third 12 months of the Consulting Period to receive a second

tranche of 50,000 shares if and only if the third year goal is met at the same level as though the second year's goal had been met.

For the purposes of this section 5, "Revenue" is defined as cash collected by or on behalf of the Company for services billed during the particular 12-month period tested, measured at the conclusion of the third calendar month after the 12-month period tested and which Revenue has been generated by the Mobile Business from services rendered in New Jersey, Pennsylvania, North Carolina, Delaware, Maryland, and the District of Columbia only.

b. REIMBURSEMENT OF EXPENSES. The Company shall reimburse the Consultant for all reasonable out-of-pocket expenses incurred by the Consultant in connection with the performance of the Consulting Service. Reimbursement of such approved expenses shall be paid by the Company within fifteen (15) business days after receipt of a written statement of the Consultant setting forth (in reasonable detail) the description and amount of such incurred expenses.

c. NO OTHER COMPENSATION. The Company shall not be under any obligation to provide any salary, benefits or other compensation to Consultant other than as explicitly set forth herein.

6. CONFIDENTIAL NON-DISCLOSURE. During the Consulting Period and at all times thereafter, Consultant agrees as follows:

a. DEFINITION OF CONFIDENTIAL INFORMATION. Consultant understands that the Company possesses and will possess Proprietary Information which is important to its business. For purposes of this Agreement, "Proprietary Information" is information that was or will be developed, created, or discovered by or on behalf of the Company, or which became or will become known by, or was or is conveyed to the Company, which has commercial value in the Company's business. "Proprietary Information" includes, but is not limited to, information about trade secrets, product specifications, data, procedures, know-how, formulae, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions, models, documentation, techniques, diagrams, flowcharts, new products and new technology information, product prototypes, product copies, manufacturing, development or marketing techniques, material development or marketing timetables, strategies and development plans, and ideas, past, current and planned research and development, current and planned manufacturing distribution methods and processes, customer lists, current and anticipated customer requirements, price lists, market studies, business plans, computer software and programs computer programs, software, source code, object code, algorithms, designs, technology, ideas, know-how, processes, formulas, compositions, data, techniques, improvements, inventions (whether patentable or not), works of authorship, business and product development plans, the salaries and terms of compensation of Company employees and other consultants, customers and other information concerning the Company's actual or anticipated business, research or development, or which is received in confidence by or for the Company from any other person. Consultant understands that the consulting arrangement between Consultant and the Company creates a relationship of confidence and trust between Consultant and the Company with respect to Proprietary Information.

b. Consultant understands that the Company possesses or will possess "Company Materials" which are important to its business. For purposes of this Agreement, "Company Materials" are documents or other media or tangible items that contain or embody Proprietary Information or any other information concerning the business, operations or plans of the Company, whether such documents have been prepared by Consultant or by others. "Company Materials" include, but are not limited to, blueprints, drawings, photographs, charts, graphs, notebooks, customer lists, computer disks, tapes or printouts, sound recordings and other printed, typewritten or handwritten documents, as well as samples, prototypes, models, products and the like.

c. All Proprietary Information and all title, patents, patent rights, copyrights, mask work rights, trade secret rights, and other intellectual property and rights anywhere in the world (collectively "Rights") in connection therewith shall be the sole property of the Company. Consultant hereby assigns to the Company any Rights Consultant may have or acquire in such Proprietary Information. At all times, both during the term of this Agreement and after its termination, Consultant will keep in confidence and trust and will not use or disclose any Proprietary Information or anything relating to it without the prior written consent of an officer of the Company. Consultant acknowledges that any disclosure or unauthorized use of Proprietary Information will constitute a material breach of this Agreement and cause substantial harm to the Company for which damages would not be a fully adequate remedy, and, therefore, in the event of any such breach, in addition to other available remedies, the Company shall have the right (without posting any bond or other security) to obtain temporary, preliminary and/or permanent injunctive relief.

d. All Company Materials shall be the sole property of the Company. Consultant agrees that during the term of this Agreement, Consultant will not remove any Company Materials from the business premises of the Company or deliver any Company Materials to any person or entity outside the Company, without the Company's prior express written consent. Consultant further agrees that, immediately upon the Company's request and in any event upon completion of the Consulting Services, Consultant shall deliver to the Company all Company Materials, any documents, apparatus, equipment and other physical property or any reproduction of such property used in connection with the performance of the Consulting Services. At all times before or after completion of the Consulting Services, the Company shall have the right to examine any materials relating thereto to ensure Consultant's compliance with the provisions of this Agreement.

e. Consultant agrees to perform, during and after the term of this Agreement, all acts deemed necessary or desirable by the Company to permit and assist it, in evidencing, perfecting, obtaining, maintaining, defending and enforcing Rights in any and all countries. Such acts may include, but are not limited to, execution of documents and assistance or cooperation in legal proceedings. Consultant hereby irrevocably designates and appoints the Company and its duly authorized officers and agents, as Consultant's agents and attorneys-in-fact to act for and in behalf and instead of Consultant, to execute and file any documents and to do all other lawfully permitted acts to further the above purposes with the same legal force and effect as if executed by Consultant.

f. Consultant represents that performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by Consultant in confidence or in trust prior to the execution of this Agreement. Consultant has not entered into, and Consultant agrees not to enter into, any agreement either written or oral that conflicts or might conflict with Consultant's performance of the Services under this Agreement.

7. NON-COMPETITION. In addition to the obligations of Consultant under the Non-Competition Agreement, and not in lieu thereof, Consultant agrees that commencing on the execution of this Agreement and continuing until three years after the Consultation Period, Consultant will not, without the express written permission of Company, as an employee, agent, consultant, advisor, independent contractor, general partner, officer, director, stockholder, investor, lender or guarantor of any corporation, partnership or other entity, or in any other capacity directly or indirectly:

a. Participate or engage in the design, development, manufacturing, production, marketing, sale or servicing of any product, or the provision of any service, that directly relates to Mobile Nuclear Imaging Services (the "Business") in the United States or in any country in the world;

b. Induce or attempt to induce any person who at the time of such inducement is an employee of the Company or the Company's subsidiaries to perform work or services for any other person or entity other than the Company or its subsidiaries;

c. Induce or attempt to induce any customer or client of either the Company or NIS to cease doing business with the Company or to switch some or all of their business from Company to another provider of services similar to those provided by the Company, or

d. Permit the name of Consultant to be used in connection with a competitive Business.

Notwithstanding the foregoing, Consultant will not be prohibited from competing with the Company in the United States or another country, if the Company or its affiliates, or any entity deriving title to their good will or capital stock, ceases to carry on a like Business therein; provided, however, that this exception to Consultant's covenant not to compete only applies to the state or country in which the Business of the Company was previously but is no longer carried on and does not affect the enforceability of this Paragraph in the states or countries in which the Business is continued.

As partial consideration for the foregoing provisions of this Section 7, the Company agrees that so long as Consultant does not breach any provision of this Section 7 (or otherwise materially breach this Agreement or the Non-Competition Agreement), Consultant's entitlement to receive the stock referred to in Section 5 shall be subject to a minimum distribution of 100,000 shares which, if not previously distributed to Consultant, shall be distributed at the conclusion of the 3 years during which Consultant is not permitted to compete as described in this Section 7.

8. SAVINGS CLAUSE. If any restriction set forth in Section 7 above is held to be unreasonable, then Consultant agrees, and hereby submits, to the reduction and limitation of such prohibition to such area or period as shall be deemed reasonable. Consultant agrees that during the period Consultant renders services to the Company, Consultant will not engage in any employment, business, or activity that is in any way competitive with the Mobile Business of the Company (or natural or likely expansions thereof), and Consultant will not assist any other person or organization in competing with the Company or in preparing to engage in competition with the Mobile Business of the Company (or natural or likely expansions thereof).

9. INJUNCTIVE RELIEF. Consultant expressly agrees that the covenants set forth in Sections 7(a) and 7(c) are reasonable and necessary to protect the Company and its legitimate business interests, and to prevent the unauthorized dissemination of confidential Information to competitors of the

Company. Consultant also agrees that the Company will be irreparably harmed and that damages alone cannot adequately compensate the Company if there is a violation of Sections 6 or 7 by Consultant, and that injunctive relief against Consultant is essential for the protection of the Company. Therefore, in the event of any such breach, it is agreed that, in addition to any other remedies available, the Company shall be entitled as a matter of right to injunctive relief in any court of competent jurisdiction, plus attorneys' fees actually incurred for the securing of such relief.

10. TERMINATION OF CONSULTING PERIOD. As noted above, the Consulting Period shall end at the end of the Initial Period plus each Subsequent Period as becomes effective, unless the period is terminated sooner under this Section 10. The Consulting period may be terminated prior to the conclusion of the Initial Period or any ensuing Subsequent Period as and when set forth below:

a. Immediately upon the liquidation or dissolution of the Company, or the transfer of all or substantially all of the assets of the Company to a third party, other than the transfer to an entity controlled by the Company or Digirad, the Consulting Period shall terminate, in which case, the remaining stock subject to the earn out for any period for which Consultant may still be eligible shall be promptly transferred to Consultant as full compensation for and discharge of any damages Consultant may suffer as a result of the early termination of the Consulting Period;

b. Thirty (30) days after Consultant has received written notice from the Company the Consultant has materially breached this Agreement, in which case, Consultant shall not be entitled to receive any further compensation or stock as provided for in this Agreement. Examples of material breach shall include, but not be limited, breaches of Section 6 or 7 of this Agreement,

c. Sixty (60) days after Consultant provides notice to the Company that Consultant desires to cease providing services to the Company hereunder, in which case: (i) if Consultant provides such notice of termination of the Consulting Period without cause, Consultant shall not be entitled to receive any further compensation or stock as provided for in this Agreement, and (ii) if Consultant provides such notice of termination of the Consulting Period due to alleged material breach by the Company, the remaining stock subject to the earn out for any period for which Consultant may still be eligible shall be promptly transferred to

Consultant as full compensation for and discharge of any damages Consultant may suffer as a result of the early termination of the Consulting Period. Material breach by the Company shall be limited to the failure to deliver stock to Consultant as set forth herein,

11. INDEPENDENT CONTRACTOR. Nothing herein contained shall be deemed to create an agency, joint venture, partnership or franchise relationship between parties hereto. Consultant acknowledges that it is an independent contractor, is not an agent or employee of the Company and is not entitled to any Company employment rights or benefits and is not authorized to act on behalf of Company. Consultant shall be solely responsible for any and all tax obligations of Consultant, including but not limited to, all city, state and federal income taxes, social security withholding tax and other self employment tax incurred by Consultant. Company shall not dictate the work hours of Consultant during the term of this Agreement. Anything herein to the contrary notwithstanding, the parties hereby acknowledge and agree that Company shall have no right to control the manner, means, or method by which Consultant performs the services called for by this Agreement. Rather, Company shall be entitled only to direct Consultant with respect to the elements of services to be performed by Consultant and the results to be derived by Company, to inform Consultant as to where and when such services shall be performed, and to review and assess the performance of such services by Consultant for the limited purposes of assuring that such services have been performed and confirming that such results were satisfactory. Company shall be entitled to exercise broad general power of supervision and control over the results of work performed by Consultant's personnel to ensure satisfactory performance, including the right to inspect, the right to stop work, the right to make suggestions or recommendations as to the details of the work, and the right to propose modifications to the work.

12. INDEMNIFICATION. The Consultant shall indemnify, defend and hold harmless the Company and its partners, shareholders, officers, directors, employees, affiliates, agents, representatives, attorneys, successors and assigns, and each of them (each a "Company Indemnitee"), from and against all losses, liabilities, damages, costs and expenses of any nature whatsoever (including, without limitation, reasonable attorneys' fees and costs related thereto) which any such Company Indemnitee may suffer or incur as the result of the negligence or misconduct of the Consultant in the performance of the Consulting Services under this Agreement. Without limiting the generality of the foregoing, the parties specifically agree that the indemnity provisions of this Section 9 shall include any and all losses, liabilities, damages, costs, expenses and lost profits incurred by the Company associated with any loss of

the services of the Consultant. The Company hereby agrees to indemnify and hold Consultant harmless from and against all suits, claims, actions, demands, losses, liabilities, damages, settlements, penalties, fines, lost profits, costs and/or expenses, including without limitation reasonable legal expenses and attorneys' fees incurred by Consultant directly or indirectly as a result of the Company's conduct of the Mobile Business

13. SURVIVAL OF CERTAIN RIGHTS AND OBLIGATIONS. Termination of the Consulting period shall not terminate this Agreement. Thus, although Consultant shall no longer be required to provide Consulting Services to the Company and the Company shall not be obligated to provide any further stock or compensation to Consultant after termination of the Consulting Period, the remaining obligations, such as those set forth in Section 6, 7, and 12 shall remain in full force and effect.

14. NOTICES. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally against written receipt or by facsimile transmission with answer back confirmation or mailed (postage prepaid by certified or registered mail, return receipt requested) or by overnight courier to the parties at the following addresses or facsimile numbers:

If to the Consultant, to:

Jeffrey Mandler
c/o Nuclear Imaging Systems, Inc.
The Mark Building
3223 Phoenixville Pike, Suite C
Malvern , PA 19355
Facsimile No: (610) 296-1176

If to the Company, to:

Digirad Imaging Systems, Inc.
9350 Trade Place
San Diego, CA 92126
Facsimile No.: (858) 549-7714
Attention: Chief Executive Officer

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section 14, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section 14, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this Section 14, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

15. OBLIGATIONS CONTINGENT ON PERFORMANCE. The obligations of the Company hereunder, including its obligation to pay the compensation provided for herein, are contingent upon the Consultant's performance of its obligations hereunder.

16. ENTIRE AGREEMENT. This Agreement, the Purchase Agreement and the documents executed in connection with the Purchase Agreement, supersede all prior discussions and agreements among the parties with respect to the subject matter hereof and contain the sole and entire agreement between the parties hereto with respect thereto.

17. WAIVER. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. No waiver by any party hereto of any term or condition of this Agreement, in

any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by law or otherwise afforded, will be cumulative and not alternative.

18. AMENDMENT. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

19. NO THIRD PARTY BENEFICIARY. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and the Company's successors or assigns, and it is not the intention of the parties to confer third-party beneficiary rights upon any other person or entity.

20. NO ASSIGNMENT; BINDING EFFECT. This Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and any successors or assigns of the Company. The Consultant shall not be entitled to assign its right, interest or obligations under this Agreement without the prior written consent of the Company.

21. HEADINGS. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

22. SEVERABILITY. The Company and the Consultant intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. Accordingly, if a court of competent jurisdiction determines that the scope and/or operation of any provision of this Agreement is too broad to be enforced as written, the Company and the Consultant intend that the court should reform such provision to such narrower scope and/or operation as it determines to be enforceable. If, however, any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future law, and not subject to reformation, then (i) such provision shall be fully severable, (ii) this Agreement shall be construed and enforced as if such provision was never a part of this Agreement, and (iii) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by illegal, invalid, or unenforceable provisions or by their severance.

23. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Pennsylvania applicable to contracts executed and performed in such State, without giving effect to conflicts of laws principles.

24. ARBITRATION. The Consultant agrees that any and all disputes that the Consultant has with the Company or any of its employees, which arise out of the Consultant's employment hereunder, the termination of the Consultant's services, or under the terms of this Agreement, shall be resolved through final and binding arbitration. This shall include, without limitation, disputes relating to this Agreement, any disputes regarding the Consultant's employment by the Company or the termination thereof, claims for breach of contract or breach of the covenant of good faith and fair dealing, and any claims of discrimination or other claims under any federal, state or local law or regulation now in existence or hereinafter enacted and as amended from time to time concerning in any way the subject of the Consultant's employment with the Company or its termination. Binding arbitration will be conducted in Philadelphia, Pennsylvania, in accordance with the rules and regulations of the American Arbitration

Association. Each party will bear one half of the cost of the arbitration filing and hearing fees, and the cost of the arbitrator. Each party will bear its own attorneys' fees, unless otherwise decided by the arbitrator. The Consultant understands and agrees that the arbitration shall be instead of any civil litigation and that the arbitrator's decision shall be final and binding to the fullest extent permitted by law and enforceable by any court having jurisdiction thereof. Each party will bear one half of the cost of the arbitration filing and hearing fees, and the cost of the arbitrator. Each party will bear its own attorneys' fees, unless otherwise decided by the arbitrator. Each party will bear one half of the cost of the arbitration filing and hearing fees, and the cost of the arbitrator. Each party will bear its own attorneys' fees, unless otherwise decided by the arbitrator. The parties understand and agree that the arbitration shall be instead of any civil litigation and that the arbitrator's decision shall be final and binding to the fullest extent permitted by law and enforceable by any court having jurisdiction thereof. Each party shall be entitled to pre-hearing discovery as provided by California Code of Civil Procedure Section 1283.05 (notwithstanding that Pennsylvania law is otherwise applicable).

25. COUNTERPARTS. This Agreement may be executed in any number of counterparts and by facsimile, each of which will be deemed an original, but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first above written.

DIGIRAD IMAGING SYSTEMS, INC.,
a Delaware corporation

By: ----------

Name: ----------

Title: ----------

CONSULTANT

JEFFREY MANDLER

ATTACHMENT A

DESCRIPTION OF CONSULTING SERVICES

MARKETING, ADMINISTRATION AND PROMOTION. Consultant shall use its best efforts to actively market, promote and administer the Mobile Business as directed by the Company ("Services") on a continuing basis, shall comply with good business practices and all applicable laws and regulations and shall diligently perform all other duties as mutually agreed upon herein.

CONVERTIBLE PROMISSORY NOTE AND WARRANT PURCHASE AGREEMENT

THIS CONVERTIBLE PROMISSORY NOTE AND WARRANT PURCHASE AGREEMENT (the "Agreement") is made as of September 29, 2000, among Digirad Corporation, a Delaware corporation (the "Company"), and each of the investors listed on EXHIBIT A attached hereto (each individually, an "Investor" and collectively, the "Investors").

RECITALS

WHEREAS, each Investor desires to purchase from the Company, and the Company desires to issue to each Investor, a Convertible Promissory Note in the form attached hereto as EXHIBIT B (each a "Note," and collectively the "Notes") in the principal amount set forth opposite the Investor's name on EXHIBIT A attached hereto under the heading "Principal Amount of Notes"; and

WHEREAS, each Investor desires to purchase from the Company, and the Company desires to issue to each Investor, a Warrant in the form attached hereto as EXHIBIT C to purchase a certain number of shares of the Company's Preferred Stock on the terms and conditions set forth in this Agreement and the Warrant (each a "Warrant," and collectively the "Warrants").

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. PURCHASE AND SALE OF NOTES AND WARRANTS.

1.1 PURCHASE AND SALE OF NOTES AND WARRANTS. Subject to the terms and conditions of this Agreement, each Investor agrees to purchase at the Closing and the Company agrees to sell and issue to each Investor at the Closing (a) a Note in the principal amount set forth opposite that Investor's name on EXHIBIT A attached hereto under the heading "Principal Amount of Note" at a price equal to 100% of the principal amount thereof and (b) a Warrant to purchase that number of shares of the Company's Preferred Stock as set forth in such Warrant.

1.2 CLOSING. The purchase and sale of the Notes and Warrants shall take place at the offices of Brobeck, Phleger & Harrison LLP, 12390 El Camino Real, San Diego, California at 10:00 a.m. on September 29, 2000, or at such other time and place as the Company and Investors shall mutually agree in writing (which time and place are designated as the "Closing"). At the Closing, the Company shall deliver to each Investor participating in the Closing, the Note and Warrant that such Investor is purchasing against payment of the Principal Amount of Note set forth across from such Investor's name on attached EXHIBIT A by check or wire transfer of same day funds.

1.3 CONVERSION OF NOTE. Each Note may be converted into shares of the Company's equity securities under the terms and conditions set forth in Section 2 of each Note.

1.4 ALLOCATION OF PURCHASE PRICE TO WARRANT. The Company hereby allocates to each Warrant a purchase price of $0.001 for each share of Preferred Stock into which such Warrant is exercisable.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby represents and warrants to and for the benefit of each Investor, with knowledge that each Investor is relying thereon in entering into this Agreement and purchasing the Note and Warrant from the Company, that the following are true and correct:

2.1 ORGANIZATION, GOOD STANDING AND QUALIFICATION. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a material adverse effect on the operation of its business or properties.

2.2 AUTHORIZATION. All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement, the Notes, the Warrants and the performance of all obligations of the Company thereunder has been taken or will be taken prior to the Closing, and this Agreement, the Notes and the Warrants constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their

respective terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (b) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (c) to the extent the indemnification provisions, if any, contained in any of such documents may be limited by applicable federal or state securities laws.

2.3 GOVERNMENTAL CONSENTS. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state, local or provincial governmental authority on the part of the Company is required in connection with the consummation of the transactions contemplated by this Agreement, except for the filing pursuant to Section 25102(f) of the California Corporate Securities Law of 1968, as amended, and the rules thereunder, which filing shall be effected by the Company within fifteen (15) days of the sale of the Notes and Warrants pursuant to this Agreement.

3. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS. Each Investor hereby represents and warrants to and for the benefit of the Company, with knowledge that the Company is relying thereon in entering into this Agreement and issuing the Note and Warrant to such Investor, as follows:

3.1 PURCHASE ENTIRELY FOR OWN ACCOUNT. By each Investor's execution of this Agreement, such Investor hereby confirms that the Note and Warrant to be received by such Investor and the Preferred Stock issuable upon conversion of the Note and exercise of the Warrant (collectively, the "Securities") shall be acquired for investment for such Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in,

or otherwise distributing the same. By executing this Agreement, each Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the Securities. Each Investor represents that it has full power and authority to enter into this Agreement.

3.2 INVESTMENT EXPERIENCE. Each Investor is an investor in securities of companies in the development stage and acknowledges that it is able to fend for itself, can bear the economic risk of its investment and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Securities.

3.3 ACCREDITED INVESTOR. Each Investor is an "accredited investor" within the meaning of SEC Rule 501 of Regulation D, as now in effect.

3.4 RESTRICTED SECURITIES. Each Investor understands that the Securities it is and shall be purchasing are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act"), only in certain limited circumstances. In this connection, each Investor represents that it is familiar with Rule 144 promulgated under the Act, as now in effect, and understands the resale limitations imposed thereby and by the Act.

3.5 LEGENDS. Each Investor understands that the certificates evidencing the Securities may bear one or all of the following legends:

(a) "The securities evidenced by this certificate have not been registered under the Securities Act of 1933, as amended (the "Act") or the securities laws of any state of the United States. The securities evidenced by this certificate may not be offered, sold or transferred for value directly or indirectly, in the absence of such registration under the Act and qualification under applicable state laws, or pursuant to an exemption from registration under the Act and qualification under applicable state laws, the availability of which is to be established to the reasonable satisfaction of the Company."

(b) Any legend required by the laws of any state.

4. RESTRICTIONS ON DISPOSITION. Without in any way limiting the representations set forth in Section 3 above, each Investor further agrees not to make any disposition of all or any portion of the Securities unless

and until the transferee has agreed in writing for the benefit of the Company to be bound by this Section 4 and such Investor receives the prior written consent of the Company, and in addition thereto, one of the following conditions is satisfied:

4.1 SECURITIES REGISTERED. There is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with such registration statement.

4.2 REGISTRATION NOT REQUIRED. Such Investor shall have (i) notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (ii) if reasonably requested by the Company, furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such securities under the Act. No opinion of counsel will be required for sales made in accordance with Rule 144 under the Act, except in unusual circumstances.

4.3 OTHER PERMITTED TRANSFERS. Notwithstanding the provisions of Sections 4.1 and 4.2 above, no such registration statement or opinion of counsel shall be necessary for a transfer by an Investor which is a partnership to a partner of such partnership or a retired partner of such partnership who retires after the date hereof, or to the estate of any such partner or retired partner or the transfer by gift, will or intestate succession of any partner to his spouse or to the siblings, lineal descendants including adopted children or ancestors of such partner or his spouse, if, prior to such transfer, the transferee agrees in writing to be subject to the terms hereof to the same extent as if he were the original Investor hereunder, or to an "affiliate" of an Investor as

4.4 that term is defined in Rule 405 promulgated by the Securities and Exchange Commission under the Act.

5. CALIFORNIA COMMISSIONER OF CORPORATIONS.

5.1 CORPORATE SECURITIES LAW. THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION FOR SUCH SECURITIES PRIOR TO SUCH QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATION BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

6. GENERAL PROVISIONS.

6.1 VALID ISSUANCE OF PREFERRED STOCK. The Company hereby covenants that the shares of Preferred Stock of the Company issuable upon the conversion of the Notes or the exercise of the Warrants which may be purchased by the Investors pursuant to this Agreement (i) have been or will be duly and validly reserved for issuance and, upon issuance in accordance with the terms of the Notes and Warrants, and (ii) shall be duly and validly issued, fully paid and nonassessable, and issued in compliance with all applicable securities laws, as presently in effect, of the United States and each of the states whose securities laws govern the issuance of the Notes and Warrants pursuant to this Agreement.

6.2 CONSTRUCTION. This Agreement shall be governed, construed and enforced in accordance with the internal laws of the State of California, without giving effect to its conflicts of laws principles.

6.3 ENTIRE AGREEMENT. This Agreement, together with the agreements and documents referred to herein, constitute the entire agreement between the parties hereto with respect to the subject matter hereof and supersede all prior and contemporaneous negotiations, agreements and understandings.

6.4 NOTICES. All payments, notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given at the earlier of (i) the time of actual delivery or (ii) on the third business day following the date deposited with the United States Postal Service, postage prepaid, certified with return receipt

requested, to the parties at the following addresses or at such other address as shall be given in writing by a party to the other parties:

Investors: At the address set forth below their names on EXHIBIT A attached hereto.

The Company: Digirad Corporation
9350 Trade Place
San Diego, CA 92126-6334
Attn: Chief Executive Officer

6.5 SUCCESSORS AND ASSIGNS. This Agreement, and the rights and obligations of each of the parties hereunder, may not be assigned by any Investor without the prior written consent of the Company. Subject to the foregoing sentence, this Agreement shall inure to the benefit of, and shall be binding upon, the parties and their successors and assigns.

6.6 SEVERABILITY. If any term, covenant or condition of this Agreement is held to be invalid, void or otherwise unenforceable by any court of competent jurisdiction, the remainder of this Agreement shall not be affected thereby and each term, covenant and condition of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

6.7 MODIFICATION. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the holders of at least fifty-one percent (51%) of the aggregate principal amount of the Notes then outstanding. Any amendment or waiver effected in accordance with this Section 6.7 shall be binding upon all parties to this Agreement, including without limitation, any Investors who may not have executed such amendment or waiver, and each future holder of any equity security in to which the Notes are convertible and/or any Preferred Stock that the holder of any Warrant is entitled to receive upon exercise of such Warrant.

6.8 ATTORNEY'S FEES. If any action of law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to an award of its reasonable attorneys' fees, costs and disbursements in addition to any other relief to which such party may be entitled.

6.8 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the undersigned have executed this Agreement to be effective as of the date first written above.

COMPANY: DIGIRAD CORPORATION

a Delaware corporation

By: /s/ Scott Huennekens

Scott Huennekens,
President

INVESTORS: KINGSBURY CAPITAL PARTNERS, L.P. III

By: Kingsbury Associates, L.P.
its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger
its General Partner

OCEAN AVENUE INVESTORS, LLC

By: /s/ illegible

Name: Ocean Avenue Investors, LLC

Anacapa Fund

Its: Manager

[SIGNATURE PAGE TO THE CONVERTIBLE PROMISSORY NOTE AND WARRANT PURCHASE AGREEMENT]

VECTOR LATER-STAGE EQUITY FUND II (QP), LP.

By: Vector Fund Management II, L.L.C.
its General Partner

By: /s/ Douglas Reed

Name: Douglas Reed, M.D.

Title: Managing Director

VECTOR LATER-STAGE EQUITY FUND II, LP.

By: Vector Fund Management II, L.L.C.
its General Partner

By: /s/ Douglas Reed

Name: Douglas Reed, M.D.

Title: Managing Director

[SIGNATURE PAGE TO THE CONVERTIBLE PROMISSORY NOTE AND WARRANT PURCHASE AGREEMENT]

KINGSBURY CAPITAL PARTNERS, L.P. IV

By: Kingsbury Associates, L.P.
its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger
its General Partner

[SIGNATURE PAGE TO THE CONVERTIBLE PROMISSORY NOTE AND WARRANT PURCHASE AGREEMENT]

EXHIBIT A

SCHEDULE OF INVESTORS

PRINCIPAL AMOUNT PURCHASE PRICE ALLOCATED TO INVESTOR NAME AND ADDRESS OF NOTES	WARRANTS

-- Kingsbury Capital Partners, L.P. III	$300,000.00	$300.00	3655 Nobel Drive, Suite 490 San Diego, CA 92122 Attn: Timothy J. Wollaeger
Kingsbury Capital Partners, L.P. IV	$700,000.00	$700.00	3655 Nobel Drive, Suite 490 San Diego, CA 92122 Attn: Timothy J. Wollaeger
Ocean Avenue Investors, LLC	$500,000.00	$500.00	-
Anacapa Fund I	100		Wilshire Blvd., Suite 600 Santa Monica, CA 90401 Attn: Robert Raede
Vector Later-Stage Equity Fund II (QP), L.P.	$375,000.00	$375.00	1751 Lake Cook Road Deerfield, IL 60015 Attn: Douglas Reed
Vector Later-Stage Equity Fund II, L.P.	$125,000.00	$125.00	1751 Lake Cook Road Deerfield, IL 60015 Attn: Douglas Reed
TOTAL	$2,000,000.00	$2,000.00	

EXHIBIT B

FORM OF CONVERTIBLE PROMISSORY NOTE

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED BY THE HOLDER HEREOF FOR ITS OWN ACCOUNT FOR INVESTMENT WITH NO INTENTION OF MAKING OR CAUSING TO BE MADE A PUBLIC DISTRIBUTION OF ALL OR ANY PORTION THEREOF. SUCH SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT FILED UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT.

$_____ San Diego, CA
September 29, 2000

DIGIRAD CORPORATION

CONVERTIBLE PROMISSORY NOTE

Digirad Corporation, a Delaware corporation (the "Company"), for value received, hereby promises to pay to _____ ("Holder"), the principal amount of _____ ($_____) (the "Issue Price"), from the date hereof until paid or converted in accordance with the terms hereof.

1. CONVERTIBLE PROMISSORY NOTE ("NOTE").

1.1 NOTE AND WARRANT PURCHASE AGREEMENT. This Note is one of a series of Convertible Promissory Notes (collectively, the "Notes") issued by the Company in connection with that certain Convertible Promissory Note and Warrant Purchase Agreement dated as of the date hereof (the "Agreement") by and among the Company, Holder and the holders of the other Notes, and is subject to, and Holder and the Company shall be bound by, all the terms, conditions and provisions of the Agreement.

2. CONVERSION.

2.1 CONVERSION. If the Company completes a subsequent equity financing on or before June 30, 2001 in which the Company receives in cash proceeds from the sale of shares of its capital stock an amount equal to or greater than five million dollars ($5,000,000) (a "Qualified Equity Financing"), the Issue Price of this Note (the "Conversion Amount") shall be converted into that number of fully paid and nonassessable shares of the equity security of the Company sold in the Qualified Equity Financing (the "New Equity Shares") as is equal to the

Conversion Amount divided by the per share purchase price of the New Equity Shares (the "New Equity Per Share Price"), with any fraction of a share to be rounded up to the next whole share of the New Equity Shares. The Holder shall have no right to negotiate any of the terms or conditions upon which the New Equity Shares will be issued, which negotiation shall be conducted solely among the Company and the purchasers of the New Equity Shares. Notwithstanding the foregoing, the following provision shall apply:

(a) If on or before June 30, 2001 (a) the Company has not yet completed a Qualified Equity Financing, and (b) the Company is acquired, whether by means of a merger, sale of all or substantially all of the assets of the Company, sale of more than fifty percent (50%) of the Company's outstanding securities or otherwise (an "Acquisition"), the Company may elect to convert the Conversion Amount into that number of fully paid and nonassessable shares of the Series E Preferred Stock of the Company as is equal to the Conversion Amount divided by $3.036 per share (the "Acquisition Per Share Price"), with any fraction of a share to be rounded up to the next whole share of Series E Preferred Stock.

(b) If on July 1, 2001 (a) the Company has not yet completed a Qualified Equity Financing or (b) completed an Acquisition, the Conversion Amount shall be converted into that number of fully paid and nonassessable shares of the Company's Series C Preferred Stock as is equal to the Conversion Amount divided by $1.25 per share, with any fraction of a share to be rounded up to the next whole share of Series C Preferred Stock.

2.2 CONVERSION PROCEDURE. Written notice of any applicable conversion event heretofore described in Section 2.1 (each, a "Conversion Event") shall be delivered to the Holder of this Note at least ten (10) days in advance of the applicable Conversion Event (the "Conversion Date"), at the address last shown on the records of the Company for the Holder or given by the Holder to the Company for the purpose of notice (or, if no such address appears or is given, at the place where the principal executive office or residence of the Holder is located), notifying the Holder of the Conversion Event, including specifying (i) the Conversion Amount (calculated as of the Conversion Date), (ii) the New Equity Per Share Price, if applicable, (iii) a term sheet setting forth the rights, preferences, privileges and terms and conditions of issuance and sale of the New Equity Shares, if applicable, and (iv) the Conversion Date. The Note shall automatically convert upon the Conversion Event without any further action by the Holder hereof.

2.3 TERMINATION OF RIGHTS UPON CONVERSION. Conversion shall be deemed effective upon the Conversion Event, and the Holder of this Note shall have no further rights under this Note, whether or not this Note is surrendered.

2.4 DELIVERY OF STOCK CERTIFICATES. As promptly as practicable after any Conversion Event, the Company at its expense will issue and deliver to the Holder of this Note a certificate or certificates evidencing the number of full shares of the Company's capital stock issuable to Holder upon any such Conversion Event.

3. MISCELLANEOUS.

3.1 TRANSFER OF NOTE. This Note shall not be transferable or assignable in any manner by the Holder without the express written consent of the Company, and any such attempted disposition of this Note or any portion hereof shall be of no force or effect unless such disposition is in compliance with the Agreement.

3.2 TITLES AND SUBTITLES. The titles and subtitles used in this Note are for convenience only and are not to be considered in construing or interpreting this Note.

3.3 NOTICES. Any notice required or permitted under this Note shall be given in writing and in accordance with Section 6.4 of the Agreement (for purposes of which the term "Investor" shall mean the Holder hereunder), except as otherwise expressly provided in this Note.

3.4 ATTORNEYS' FEES. If any action at law or in equity is necessary to enforce or interpret the terms of this Note, the prevailing party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which such party may be entitled.

3.5 AMENDMENTS AND WAIVERS. Other than the right to the payment of the Issue Price, which may only be amended or waived with the written consent of the Holder, any other term of this Note may be amended and the observance of any other term of this Note may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the holders of at least fifty-one percent (51%) of the aggregate principal amount of the Notes then outstanding and in accordance with the Agreement. Any amendment or waiver effected in accordance with this Section 3.5 shall be binding upon the Holder of this Note (and of any securities into which this Note is convertible), each future holder of all such securities and the Company.

3.6 SEVERABILITY. If one or more provisions of this Note are held to be unenforceable under applicable law, such provision shall be excluded from this Note and the balance of the Note shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

3.7 GOVERNING LAW. This Note shall be governed by and construed and enforced in accordance with the laws of the State of California, without giving effect to its conflicts of laws principles.

3.8 MARKET STAND-OFF AGREEMENT. The Holder and any future transferee acknowledge and agree that, upon the conversion of this Note, Holder or any future transferee shall be bound by the market standoff provision, agreed to between the Company and the investors in the Qualified Equity Financing. In the absence of such a market standoff provision the Holder and any future transferee acknowledge and agree that upon conversion of this Note, the following provisions shall apply to the rights of the Holder and any future transferee as a holder of Common Stock: During the period of duration specified by the Company and an underwriter of Common Stock or other securities of the Company, following the effective date of a registration statement of the Company filed under the Act, the Holder or any future transferee will not, to the extent requested by the Company and such underwriter, directly or indirectly sell,

offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to transferees or donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Common Stock included in such registration; PROVIDED, HOWEVER, that such agreement shall not exceed one hundred eighty (180) days.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Preferred Stock or Common Stock of the Holder or any future transferee (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

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3.9 COUNTERPARTS. This Note may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Date: September 29, 2000

DIGIRAD CORPORATION,
a Delaware corporation

By:

Scott Huennekens
President

ACKNOWLEDGED AND AGREED:

By:

Title:

EXHIBIT C

FORM OF WARRANT TO PURCHASE PREFERRED STOCK

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED BY THE HOLDER HEREOF FOR ITS OWN ACCOUNT FOR INVESTMENT WITH NO INTENTION OF MAKING OR CAUSING TO BE MADE A PUBLIC DISTRIBUTION OF ALL OR ANY PORTION THEREOF. SUCH SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT FILED UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT.

PS-_____

Warrant to Purchase
Shares of Preferred Stock
(Subject to Adjustment)

DIGIRAD CORPORATION
PREFERRED STOCK PURCHASE WARRANT

VOID AFTER SEPTEMBER 29, 2005

Digirad Corporation, a Delaware corporation (the "Company"), hereby certifies that, for value received, _____ (including any successors and assigns, "Holder"), is entitled, and subject to the terms set forth below, to purchase from the Company at any time (A) after the earlier to occur of (i) the completion of a Qualified Equity Financing (as defined in the Notes), (ii) ten (10) days prior to the completion of an Acquisition (as defined in the Notes) or (iii) July 1, 2001, and (B) before the earlier to occur of (i) 5:00 PM Pacific time, on September 29, 2005 (the "Expiration Date"), (ii) the initial underwritten public offering of the Company's Common Stock or (iii) the completion of an Acquisition, shares of Preferred Stock of the Company, with the number of shares and the exercise price of the Warrant to be determined as follows:

(a) If the Company completes a Qualified Equity Financing or Acquisition on or before January 1, 2001, then (i) the exercise price of the Warrant will be the New Equity Per Share Price or Acquisition Per Share Price, as the case may be, and (ii) this Warrant will be exercisable into that aggregate number of New Equity Shares or Acquisition Shares, as the case may be, equal to (A) ten percent (10%) of the Issue Price of the Note issued to the Holder divided by (B) the New Equity Per Share Price or the Acquisition Per Share Price, as the case may be.

(b) If the Company completes a Qualified Equity Financing or Acquisition between January 2, 2001 and on or before February 1, 2001, then (i) the exercise price of the Warrant will be the New Equity Per Share Price or Acquisition Per Share Price, as the case may be, and (ii) this Warrant will be exercisable into that aggregate number of New Equity Shares or Acquisition Shares, as the case may be, equal to (A) twenty percent (20%) of the Issue Price of the Note

issued to the Holder divided by (B) the New Equity Per Share Price or the Acquisition Per Share Price, as the case may be.

(c) If the Company completes a Qualified Equity Financing or Acquisition between February 2, 2001 and on or before March 1, 2001, then (i) the exercise price of the Warrant will be the New Equity Per Share Price or Acquisition Per Share Price, as the case may be, and (ii) this Warrant will be exercisable into that aggregate number of New Equity Shares or Acquisition Shares, as the case may be, equal to (A) thirty percent (30%) of the Issue Price of the Note issued to the Holder divided by (B) the New Equity Per Share Price or the Acquisition Per Share Price, as the case may be.

(d) If the Company completes a Qualified Equity Financing or Acquisition between March 2, 2001 and on or before June 30, 2001, then (i) the exercise price of the Warrant will be the New Equity Per Share Price or Acquisition Per Share Price, as the case may be, and (ii) this Warrant will be exercisable into that aggregate number of New Equity Shares or Acquisition Shares, as the case may be, equal to (A) forty percent (40%) of the Issue Price of the Note issued to the Holder divided by (B) the New Equity Per Share Price or the Acquisition Per Share Price, as the case may be.

(e) In the event the Company has not completed a Qualified Equity Financing or Acquisition as of July 1, 2001, then (i) the exercise price of the Warrant will be $3.036 per share, and (ii) this Warrant will be exercisable into that aggregate number of the Company's Series E Preferred Stock equal to (A) forty percent (40%) of the Issue Price of the Note issued to the Holder divided by (B) $3.036 per share.

Holder acknowledges that each of the warrant thresholds heretofore described in sections (a) through (e) are not cumulative and that upon each increase in the amount of warrants to be issue to Holder, Holder is receiving the maximum aggregate amount of warrants to which it is entitled. (For example, if the Company completes a Qualified Equity Financing as of February 4, 2001, Holder is entitled to a MAXIMUM aggregate of number of New Equity Shares equal to thirty percent (30%) of the Issue Price of the Note issued to the Holder divided by the Per Share Price.)

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" includes any corporation which shall succeed to or assume the obligations of the Company hereunder.

(b) The term "Preferred Stock" shall mean the Preferred Stock of the Company, and any other securities or property of the Company or of any other person (corporate or otherwise) which the holder of this Warrant at any time shall be entitled to receive on the exercise hereof, in lieu of or in addition to Preferred Stock, or which at any time shall be issuable in exchange for or in replacement of Preferred Stock.

(c) The term "Purchase Agreement" shall mean the Convertible Promissory Note and Warrant Purchase Agreement dated as of the date hereof by and among the Company, the Holder and the purchasers of the other Warrants.

(d) The term "Warrant" shall mean one of a series of warrants issued pursuant to the Purchase Agreement (which warrants together are designated, the "Warrants").

1. INITIAL EXERCISE DATE; EXPIRATION. This Warrant may be

exercised at any time within the time periods described in the preamble and Section 5.3 (the "Exercise Period").

2. EXERCISE OF WARRANT; PARTIAL EXERCISE. This Warrant may be exercised in full by the Holder by surrender of this Warrant, together with the Holder's duly executed form of subscription attached hereto as SCHEDULE 1, to the Company at its principal office, accompanied by payment, in cash or by certified or official bank check payable to the order of the Company, of the aggregate exercise price (as determined above) of the shares of Preferred Stock to be purchased hereunder. The exercise of this Warrant pursuant to this Section 2 shall be deemed to have been effected immediately prior to the close of business on the business day on which this Warrant is surrendered to the Company as provided in this Section 2, and at such time the person in whose name any certificate for shares of Preferred Stock shall be issuable upon such exercise shall be deemed to be the record holder of such Preferred Stock for all purposes. As soon as practicable after the exercise of this Warrant, the Company at its expense will cause to be issued in the name of and delivered to the Holder, or as the Holder may direct, a certificate or certificates for the number of fully paid and nonassessable full shares of Preferred Stock to which the Holder shall be entitled on such exercise, together with cash, in lieu of any fraction of a share, equal to such fraction of the current market value of one full share of Preferred Stock as determined in good faith by the Board of Directors, and, if applicable, a new warrant evidencing the balance of the shares remaining subject to the Warrant.

3. NET ISSUANCE.

3.1 RIGHT TO CONVERT. In addition to and without limiting the rights of the Holder under the terms of this Warrant, the Holder shall have the right to convert this Warrant (the "Conversion Right") into shares of Preferred Stock as provided in this Section 3 at any time or from time to time during the Exercise Period. Upon exercise of the Conversion Right with respect to shares subject to the Warrant (the "Converted Warrant Shares"), the Company shall deliver to the Holder (without payment by the Holder of any exercise price or any cash or other consideration) that number of shares of fully paid and nonassessable Preferred Stock computed using the following formula:

$$X = \frac{Y (A - B)}{A}$$

Where X = the number of shares of Preferred Stock to be delivered to the holder

Y = the number of Converted Warrant Shares

A = the fair market value of one share of the Company's Preferred Stock on the Conversion Date (as defined below)

B = the per share exercise price of the Warrant (as adjusted to the Conversion Date)

No fractional shares shall be issuable upon exercise of the Conversion Right, and if the number of shares to be issued determined in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash equal to the fair market value of the resulting fractional share on the Conversion Date (as defined below). Shares issued pursuant to the Conversion Right shall be treated as if they were issued upon the exercise of the Warrant.

3.2 METHOD OF EXERCISE. The Conversion Right may be exercised by the Holder by the surrender of the Warrant at the principal office of the Company together with a written statement specifying that the Holder thereby intends to exercise the Conversion Right and indicating the total number of shares under the Warrant that the Holder is exercising through the Conversion Right. Such conversion shall be effective upon receipt by the Company of the Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"). Certificates for the shares issuable upon exercise of the Conversion Right shall be delivered to the Holder promptly following the Conversion Date.

3.3 DETERMINATION OF FAIR MARKET VALUE. For purposes of this Section 3, fair market value of a share of Preferred Stock on the Conversion Date shall mean the fair market value as determined by the Board of Directors of the Company in good faith.

4. LIMIT ON RIGHTS OF THE HOLDER UPON EXERCISE. The Holder acknowledges and agrees that upon the exercise of this Warrant in full or in part, the following provisions shall apply to the rights of the Holder as a holder of Preferred Stock:

4.1 MARKET STAND-OFF AGREEMENT. During the period of duration specified by the Company and an underwriter of Common Stock or other securities of the Company, following the effective date of a registration statement of the Company filed under the Securities Act of 1933, as amended (the "Act), the Holder or any future transferee will not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to transferees or donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Common Stock included in such registration; PROVIDED, HOWEVER, that such agreement shall not exceed one hundred eighty (180) days.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the securities of the Holder or any future transferee (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

5. ADJUSTMENTS TO CONVERSION PRICE. The number and kind of shares of Preferred Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this

Warrant and the exercise price hereunder shall be subject to adjustment from time to time upon the happening of certain events, as follows:

5.1 DIVIDENDS, DISTRIBUTIONS, STOCK SPLITS OR COMBINATIONS. If the Company shall at any time or from time to time after the date hereof make or issue, or fix a record date for the determination of holders of Preferred Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock or Preferred Stock (as the case may be), then and in each such event the exercise price hereunder then in effect shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the exercise price hereunder then in effect by a fraction: (a) the numerator of which shall be the total number of shares of Common Stock (assuming the conversion of all outstanding securities of the Company that are convertible into Common Stock and the exercise of all options to purchase Common Stock or securities that are convertible into Common Stock) issued and outstanding immediately prior to the time of issuance or the close of business on such record date; and (b) the denominator of which shall be the total number of shares of Common Stock (assuming the conversion of all outstanding securities of the Company that are convertible into Common Stock and the exercise of all options to purchase Common Stock or securities that are convertible into Common Stock) issued and outstanding immediately after the time of issuance or the close of business on such record date. If the Company shall at any time subdivide the outstanding shares of Preferred Stock (or any securities into which such Preferred Stock is convertible), or if the Company shall at any time combine the outstanding shares of Preferred Stock (or any securities into which such Preferred Stock is convertible), then the exercise price hereunder immediately shall be decreased proportionally (in the case of a subdivision) or increased proportionally (in the case of a combination). Any such adjustment shall become effective at the close of business on the date the subdivision or combination becomes effective.

5.2 RECLASSIFICATION OR REORGANIZATION. If the Preferred Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant shall be changed into the same or different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend provided for in Section 5.1 above, or a reorganization, merger, consolidation or sale of assets provided for in Section 5.3 below), then and in each such event the Holder shall be entitled to receive upon the exercise of this Warrant the kind and amount of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change, to which a holder of the number of shares of Preferred Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant would have received if this Warrant had been exercised immediately prior to such reorganization, reclassification or other change, all subject to further adjustment as provided herein.

5.3 MERGER, CONSOLIDATION OR SALE OF ASSETS. Subject to the preamble, in the event of, at any time prior to the Expiration Date, an initial public offering of securities of the Company registered under the Act, or the consolidation or merger of the Company with or into another corporation (other than a merger solely to effect a reincorporation of the Company into another state), or the sale or other disposition of all or substantially all the properties and assets

of the Company in its entirety to any other person, the Company shall provide to the Holder ten (10) days advance written notice of such public offering, consolidation, merger or sale or other disposition of the Company's assets, and this Warrant shall terminate unless exercised prior to the date such public offering is declared effective by the Securities and Exchange Commission or the occurrence of such consolidation, merger or sale or other disposition of the Company's assets. If at any time or from time to time there shall be a capital reorganization of the Preferred Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 5) of the Company, then as a part of such reorganization, provision shall be made so that the Holder shall thereafter be entitled to receive upon the exercise of this Warrant, the number of shares of stock or other securities or property of the Company, resulting from such reorganization, to which a holder of the number of shares of Preferred Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant would have received if this Warrant had been exercised immediately prior to such reorganization.

5.4 NOTICE OF ADJUSTMENTS AND RECORD DATES. The Company shall promptly notify the Holder in writing of each adjustment or readjustment of the exercise price hereunder and the number of shares of Preferred Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant. Such notice shall state the adjustment or readjustment and show in reasonable detail the facts on which that adjustment or readjustment is based.

6. REPLACEMENT OF WARRANTS. On receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of such Warrant, the Company at its expense will execute and deliver to the Holder, in lieu thereof, a new Warrant of like tenor.

7. NO RIGHTS OR LIABILITY AS A STOCKHOLDER. This Warrant does not entitle the Holder hereof to any voting rights or other rights as a stockholder of the Company. No provisions hereof, in the absence of affirmative action by the Holder to purchase Preferred Stock, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder as a stockholder of the Company.

8. MISCELLANEOUS.

8.1 TRANSFER OF WARRANT. This Warrant shall not be transferable or assignable in any manner without the express written consent of the Company, and any such attempted disposition of this Warrant or any portion hereof shall be of no force or effect unless such disposition is in compliance with the Agreement.

8.2 TITLES AND SUBTITLES. The titles and subtitles used in this Warrant are for convenience only and are not to be considered in construing or interpreting this Warrant.

8.3 NOTICES. Any notice required or permitted under this Warrant shall be given in writing and in accordance with Section 6.4 of the Purchase Agreement (for purposes of

which, the term "Investor" shall mean Holder hereunder), except as otherwise expressly provided in this Warrant.

8.4 ATTORNEYS' FEES. If any action at law or in equity is necessary to enforce or interpret the terms of this Warrant, the prevailing party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which such party may be entitled.

8.5 AMENDMENTS AND WAIVERS. Any term of this Warrant may be amended and the observance of any term of this Warrant may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the holders of Warrants representing together the right to purchase at least fifty-one percent (51%) of all of the Preferred Stock of the Company subject to purchase pursuant to all of the Warrants and in accordance with the Purchase Agreement. Any amendment or waiver effected in accordance with this Section 8.5 shall be binding upon the Holder of this Warrant (and of any securities into which this Warrant is convertible), each future holder of all such securities, and the Company.

8.6 SEVERABILITY. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision shall be excluded from this Warrant and the balance of the Warrant shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

8.7 GOVERNING LAW. This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of California, without giving effect to its conflicts of laws principles.

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8.8 COUNTERPARTS. This Warrant may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Date: September 29, 2000

DIGIRAD CORPORATION,
a Delaware corporation

By:

Scott Huennekens
President

ACKNOWLEDGED AND AGREED:

By:

Title:

[SIGNATURE PAGE TO WARRANT]

SCHEDULE 1

FORM OF SUBSCRIPTION

(To be signed only on exercise of Warrant)

To: DIGIRAD CORPORATION

The undersigned, the holder of the Warrant attached hereto, hereby irrevocably elects to exercise the purchase rights represented by such Warrant for, and to purchase thereunder, _____ shares of Preferred Stock of Digirad Corporation, and herewith makes payment of $_____ therefor, and requests that the certificates for such shares be issued in the name of, and delivered to _____, whose address is _____.

(Signature must conform in all respects to name of the Holder as specified on the face of the Warrant)

(Print Name)

(Address)

Dated:
---

* Insert here the number of shares as to which the Warrant is being exercised.

EXHIBIT 10.15

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED BY THE HOLDER HEREOF FOR ITS OWN ACCOUNT FOR INVESTMENT WITH NO INTENTION OF MAKING OR CAUSING TO BE MADE A PUBLIC DISTRIBUTION OF ALL OR ANY PORTION THEREOF. SUCH SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT FILED UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT.

PS-_____

Warrant to Purchase
Shares of Preferred Stock
(Subject to Adjustment)

DIGIRAD CORPORATION
PREFERRED STOCK PURCHASE WARRANT

VOID AFTER SEPTEMBER 29, 2005

Digirad Corporation, a Delaware corporation (the "Company"), hereby certifies that, for value received, _____ (including any successors and assigns, "Holder"), is entitled, and subject to the terms set forth below, to purchase from the Company at any time (A) after the earlier to occur of (i) the completion of a Qualified Equity Financing (as defined in the Notes), (ii) ten (10) days prior to the completion of an Acquisition (as defined in the Notes) or (iii) July 1, 2001, and (B) before the earlier to occur of (i) 5:00 PM Pacific time, on September 29, 2005 (the "Expiration Date"), (ii) the initial underwritten public offering of the Company's Common Stock or (iii) the completion of an Acquisition, shares of Preferred Stock of the Company, with the number of shares and the exercise price of the Warrant to be determined as follows:

(a) If the Company completes a Qualified Equity Financing or Acquisition on or before January 1, 2001, then (i) the exercise price of the Warrant will be the New Equity Per Share Price or Acquisition Per Share Price, as the case may be, and (ii) this Warrant will be exercisable into that aggregate number of New Equity Shares or Acquisition Shares, as the case may be, equal to (A) ten percent (10%) of the Issue Price of the Note issued to the Holder divided by (B) the New Equity Per Share Price or the Acquisition Per Share Price, as the case may be.

(b) If the Company completes a Qualified Equity Financing or Acquisition between January 2, 2001 and on or before February 1, 2001, then (i) the exercise price of the Warrant will be the New Equity Per Share Price or Acquisition Per Share Price, as the case may be, and (ii) this Warrant will be exercisable into that aggregate number of New Equity Shares or Acquisition Shares, as the case may be, equal to (A) twenty percent (20%) of the Issue Price of the Note issued to the Holder divided by (B) the New Equity Per Share Price or the Acquisition Per Share Price, as the case may be.

(c) If the Company completes a Qualified Equity Financing or Acquisition between February 2, 2001 and on or before March 1, 2001, then (i) the exercise price of the Warrant will be the New Equity Per Share Price or Acquisition Per Share Price, as the case may be, and (ii) this Warrant will be exercisable into that aggregate number of New Equity Shares or Acquisition Shares, as the case may be, equal to (A) thirty percent (30%) of the Issue Price of the Note issued to the Holder divided by (B) the New Equity Per Share Price or the Acquisition Per Share Price, as the case may be.

(d) If the Company completes a Qualified Equity Financing or Acquisition between March 2, 2001 and on or before June 30, 2001, then (i) the exercise price of the Warrant will be the New Equity Per Share Price or Acquisition Per Share Price, as the case may be, and (ii) this Warrant will be exercisable into that aggregate number of New Equity Shares or Acquisition Shares, as the case may be, equal to (A) forty percent (40%) of the Issue Price of the Note issued to the Holder divided by (B) the New Equity Per Share Price or the Acquisition Per Share Price, as the case may be.

(e) In the event the Company has not completed a Qualified Equity Financing or Acquisition as of July 1, 2001, then (i) the exercise price of the Warrant will be $3.036 per share, and (ii) this Warrant will be exercisable into that aggregate number of the Company's Series E Preferred Stock equal to (A) forty percent (40%) of the Issue Price of the Note issued to the Holder divided by (B) $3.036 per share.

Holder acknowledges that each of the warrant thresholds heretofore described in sections (a) through (e) are not cumulative and that upon each increase in the amount of warrants to be issue to Holder, Holder is receiving the maximum aggregate amount of warrants to which it is entitled. (For example, if the Company completes a Qualified Equity Financing as of February 4, 2001, Holder is entitled to a MAXIMUM aggregate of number of New Equity Shares equal to thirty percent (30%) of the Issue Price of the Note issued to the Holder divided by the Per Share Price.)

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" includes any corporation which shall succeed to or assume the obligations of the Company hereunder.

(b) The term "Preferred Stock" shall mean the Preferred Stock of the Company, and any other securities or property of the Company or of any other person (corporate or otherwise) which the holder of this Warrant at any time shall be entitled to receive on the exercise hereof, in lieu of or in addition to Preferred Stock, or which at any time shall be issuable in exchange for or in replacement of Preferred Stock.

(c) The term "Purchase Agreement" shall mean the Convertible Promissory Note and Warrant Purchase Agreement dated as of the date hereof by and among the Company, the Holder and the purchasers of the other Warrants.

(d) The term "Warrant" shall mean one of a series of warrants issued pursuant to the Purchase Agreement (which warrants together are designated, the "Warrants").

1. INITIAL EXERCISE DATE; EXPIRATION. This Warrant may be exercised at any time within the time periods described in the preamble and Section 5.3 (the "Exercise Period").

2. EXERCISE OF WARRANT; PARTIAL EXERCISE. This Warrant may be exercised in full by the Holder by surrender of this Warrant, together with the Holder's duly executed form of subscription attached hereto as SCHEDULE 1, to the Company at its principal office, accompanied by payment, in cash or by certified or official bank check payable to the order of the Company, of the aggregate exercise price (as determined above) of the shares of Preferred Stock to be purchased hereunder. The exercise of this Warrant pursuant to this Section 2 shall be deemed to have been effected immediately prior to the close of business on the business day on which this Warrant is surrendered to the Company as provided in this Section 2, and at such time the person in whose name any certificate for shares of Preferred Stock shall be issuable upon such exercise shall be deemed to be the record holder of such Preferred Stock for all purposes. As soon as practicable after the exercise of this Warrant, the Company at its expense will cause to be issued in the name of and delivered to the Holder, or as the Holder may direct, a certificate or certificates for the number of fully paid and nonassessable full shares of Preferred Stock to which the Holder shall be entitled on such exercise, together with cash, in lieu of any fraction of a share, equal to such fraction of the current market value of one full share of Preferred Stock as determined in good faith by the Board of Directors, and, if applicable, a new warrant evidencing the balance of the shares remaining subject to the Warrant.

3. NET ISSUANCE.

3.1 RIGHT TO CONVERT. In addition to and without limiting the rights of the Holder under the terms of this Warrant, the Holder shall have the right to convert this Warrant (the "Conversion Right") into shares of Preferred Stock as provided in this Section 3 at any time or from time to time during the Exercise Period. Upon exercise of the Conversion Right with respect to shares subject to the Warrant (the "Converted Warrant Shares"), the Company shall deliver to the Holder (without payment by the Holder of any exercise price or any cash or other consideration) that number of shares of fully paid and nonassessable Preferred Stock computed using the following formula:

$$X = \frac{Y (A - B)}{A}$$

Where X = the number of shares of Preferred Stock to be delivered to the holder

Y = the number of Converted Warrant Shares

A = the fair market value of one share of the Company's Preferred Stock on the Conversion Date (as defined below)

B = the per share exercise price of the Warrant (as

adjusted to the Conversion Date)

No fractional shares shall be issuable upon exercise of the Conversion Right, and if the number of shares to be issued determined in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash equal to the fair market value of

the resulting fractional share on the Conversion Date (as defined below). Shares issued pursuant to the Conversion Right shall be treated as if they were issued upon the exercise of the Warrant.

3.2 METHOD OF EXERCISE. The Conversion Right may be exercised by the Holder by the surrender of the Warrant at the principal office of the Company together with a written statement specifying that the Holder thereby intends to exercise the Conversion Right and indicating the total number of shares under the Warrant that the Holder is exercising through the Conversion Right. Such conversion shall be effective upon receipt by the Company of the Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"). Certificates for the shares issuable upon exercise of the Conversion Right shall be delivered to the Holder promptly following the Conversion Date.

3.3 DETERMINATION OF FAIR MARKET VALUE. For purposes of this Section 3, fair market value of a share of Preferred Stock on the Conversion Date shall mean the fair market value as determined by the Board of Directors of the Company in good faith.

4. LIMIT ON RIGHTS OF THE HOLDER UPON EXERCISE. The Holder acknowledges and agrees that upon the exercise of this Warrant in full or in part, the following provisions shall apply to the rights of the Holder as a holder of Preferred Stock:

4.1 MARKET STAND-OFF AGREEMENT. During the period of duration specified by the Company and an underwriter of Common Stock or other securities of the Company, following the effective date of a registration statement of the Company filed under the Securities Act of 1933, as amended (the "Act), the Holder or any future transferee will not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to transferees or donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Common Stock included in such registration; PROVIDED, HOWEVER, that such agreement shall not exceed one hundred eighty (180) days.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the securities of the Holder or any future transferee (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

5. ADJUSTMENTS TO CONVERSION PRICE. The number and kind of shares of Preferred Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant and the exercise price hereunder shall be subject to adjustment from time to time upon the happening of certain events, as follows:

5.1 DIVIDENDS, DISTRIBUTIONS, STOCK SPLITS OR COMBINATIONS. If the Company shall at any time or from time to time after the date hereof make or issue, or fix a record date for the determination of holders of Preferred Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock or Preferred Stock (as the case may be), then and in each such event the exercise price hereunder then in effect shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the exercise price hereunder then in effect

by a fraction: (a) the numerator of which shall be the total number of shares of Common Stock (assuming the conversion of all outstanding securities of the Company that are convertible into Common Stock and the exercise of all options to purchase Common Stock or securities that are convertible into Common Stock) issued and outstanding immediately prior to the time of issuance or the close of business on such record date; and (b) the denominator of which shall be the total number of shares of Common Stock (assuming the conversion of all outstanding securities of the Company that are convertible into Common Stock and the exercise of all options to purchase

Common Stock or securities that are convertible into Common Stock) issued and outstanding immediately after the time of issuance or the close of business on such record date. If the Company shall at any time subdivide the outstanding shares of Preferred Stock (or any securities into which such Preferred Stock is convertible), or if the Company shall at any time combine the outstanding shares of Preferred Stock (or any securities into which such Preferred Stock is convertible), then the exercise price hereunder immediately shall be decreased proportionally (in the case of a subdivision) or increased proportionally (in the case of a combination). Any such adjustment shall become effective at the close of business on the date the subdivision or combination becomes effective.

5.2 RECLASSIFICATION OR REORGANIZATION. If the Preferred Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant shall be changed into the same or different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend provided for in Section 5.1 above, or a reorganization, merger, consolidation or sale of assets provided for in Section 5.3 below), then and in each such event the Holder shall be entitled to receive upon the exercise of this Warrant the kind and amount of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change, to which a holder of the number of shares of Preferred Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant would have received if this Warrant had been exercised immediately prior to such reorganization, reclassification or other change, all subject to further adjustment as provided herein.

5.3 MERGER, CONSOLIDATION OR SALE OF ASSETS. Subject to the preamble, in the event of, at any time prior to the Expiration Date, an initial public offering of securities of the Company registered under the Act, or the consolidation or merger of the Company with or into another corporation (other than a merger solely to effect a reincorporation of the Company into another state), or the sale or other disposition of all or substantially all the properties and assets of the Company in its entirety to any other person, the Company shall provide to the Holder ten (10) days advance written notice of such public offering, consolidation, merger or sale or other disposition of the Company's assets, and this Warrant shall terminate unless exercised prior to the date such public offering is declared effective by the Securities and Exchange Commission or the occurrence of such consolidation, merger or sale or other disposition of the Company's assets. If at any time or from time to time there shall be a capital reorganization of the Preferred Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 5) of the Company, then as a part of such reorganization, provision shall be made so that the Holder shall thereafter be entitled to receive upon the exercise of this Warrant, the number of shares of stock or other securities or property of the Company, resulting from such reorganization, to which a holder of the number of shares of Preferred Stock (or any

shares of stock or other securities which may be) issuable upon the exercise of this Warrant would have received if this Warrant had been exercised immediately prior to such reorganization.

5.4 NOTICE OF ADJUSTMENTS AND RECORD DATES. The Company shall promptly notify the Holder in writing of each adjustment or readjustment of the exercise price hereunder and the number of shares of Preferred Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant. Such notice shall state the adjustment or readjustment and show in reasonable detail the facts on which that adjustment or readjustment is based.

6. REPLACEMENT OF WARRANTS. On receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of such Warrant, the Company at its expense will execute and deliver to the Holder, in lieu thereof, a new Warrant of like tenor.

7. NO RIGHTS OR LIABILITY AS A STOCKHOLDER. This Warrant does not entitle the Holder hereof to any voting rights or other rights as a stockholder of the Company. No provisions hereof, in the absence of affirmative action by the Holder to purchase Preferred Stock, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder as a stockholder of the Company.

8. MISCELLANEOUS.

8.1 TRANSFER OF WARRANT. This Warrant shall not be transferable or assignable in any manner without the express written consent of

the Company, and any such attempted disposition of this Warrant or any portion hereof shall be of no force or effect unless such disposition is in compliance with the Agreement.

8.2 TITLES AND SUBTITLES. The titles and subtitles used in this Warrant are for convenience only and are not to be considered in construing or interpreting this Warrant.

8.3 NOTICES. Any notice required or permitted under this Warrant shall be given in writing and in accordance with Section 6.4 of the Purchase Agreement (for purposes of which, the term "Investor" shall mean Holder hereunder), except as otherwise expressly provided in this Warrant.

8.4 ATTORNEYS' FEES. If any action at law or in equity is necessary to enforce or interpret the terms of this Warrant, the prevailing party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which such party may be entitled.

8.5 AMENDMENTS AND WAIVERS. Any term of this Warrant may be amended and the observance of any term of this Warrant may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the holders of Warrants representing together the right to purchase at least fifty-one percent

(51%) of all of the Preferred Stock of the Company subject to purchase pursuant to all of the Warrants and in accordance with the Purchase Agreement. Any amendment or waiver effected in accordance with this Section 8.5 shall be binding upon the Holder of this Warrant (and of any securities into which this Warrant is convertible), each future holder of all such securities, and the Company.

8.6 SEVERABILITY. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision shall be excluded from this Warrant and the balance of the Warrant shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

8.7 GOVERNING LAW. This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of California, without giving effect to its conflicts of laws principles.

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8.8 COUNTERPARTS. This Warrant may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Date: September 29, 2000

DIGIRAD CORPORATION,
a Delaware corporation

By:

Scott Huennekens
President

ACKNOWLEDGED AND AGREED:

By:

Title:

SCHEDULE 1

FORM OF SUBSCRIPTION

(To be signed only on exercise of Warrant)

To: DIGIRAD CORPORATION

The undersigned, the holder of the Warrant attached hereto, hereby irrevocably elects to exercise the purchase rights represented by such Warrant for, and to purchase thereunder, _____ shares of Preferred Stock of Digirad Corporation, and herewith makes payment of $_____ therefor, and requests that the certificates for such shares be issued in the name of, and delivered to _____, whose address is _____.

(Signature must conform in all respects to name of the Holder as specified on the face of the Warrant)

(Print Name)

(Address)

Dated: _____

* Insert here the number of shares as to which the Warrant is being exercised.

SCHEDULE I

Warrant Number	Warrantholder	Number of Shares
PS-1	Kingsbury Capital Partners, L.P. III	9,881
PS-2	Ocean Avenue Investors, LLC - Anacapa Fund I	16,469
PS-3	Vector Late-Stage Equity Fund II (QP), L.P.	12,351

PS-4 Vector Late-Stage Equity Fund II, L.P. 4,117 PS-5 Kingsbury Capital Partners, L.P. IV 23,057

EXHIBIT 10.16

THIS WARRANT AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES OR DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY THAT SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE WITH THE ACT OR UNLESS SOLD IN FULL COMPLIANCE WITH RULE 144 UNDER THE ACT.

WARRANT TO PURCHASE COMMON STOCK

OF

DIGIRAD CORPORATION

Date of Issuance - _____

Void after _____

Digirad Corporation, a Delaware corporation (the "COMPANY"), hereby certifies that, for value received _____ (including any successors and assigns, the "HOLDER"), is entitled, subject to the terms set forth below, to purchase from the Company at any time, subject to Section 2.3 herein, before 5:00 PM Pacific time on _____ (the "EXPIRATION DATE") up to _____ (_____) fully paid and nonassessable shares of Common Stock of the Company, subject to adjustment as provided herein (the "WARRANT SHARES"). The purchase price per share of such Common Stock upon exercise of this Warrant shall be $_____ (the "PURCHASE PRICE"), subject to adjustment as provided herein.

1. INITIAL EXERCISE DATE; EXPIRATION. Subject to Section 2.3 herein, this Warrant may be exercised by the Holder at any time or from time to time before 5:00 PM, Pacific time, on _____ (the "EXERCISE PERIOD") for that number of Warrant Shares set forth in Section 2.2 below.

2. EXERCISE OF WARRANT; NUMBER OF WARRANT SHARES; TERMINATION.

2.1 EXERCISE OF WARRANT; PARTIAL EXERCISE. This Warrant may be exercised in full or in part by the Holder by surrender of this Warrant, together with the form of subscription attached hereto as Schedule 1, duly executed by the Holder, to the Company at its principal office, accompanied by payment, in cash or by certified or official bank check payable to the order of the Company, of the Purchase Price of the shares of Common Stock to be purchased hereunder in an amount equal to such Purchase Price. For any partial exercise hereof, the Holder shall designate in a subscription in the form of Schedule 1 attached hereto delivered to the Company the number of shares of Common Stock that it wishes to purchase. On any such partial exercise, the Company at its expense shall forthwith issue and deliver to the Holder a new warrant of like tenor, in the name of the Holder, which shall be exercisable for such number of shares of Common Stock represented by this Warrant which have not been purchased upon such

exercise.

2.2 NUMBER OF WARRANT SHARES. Subject to adjustment as hereinafter provided, as of the Date of Issuance, the rights represented by this Warrant are immediately exercisable for _____ shares of Common Stock of the Company.

2.3 TERMINATION OF THE WARRANT UPON A CORPORATE TRANSACTION. Immediately following a Corporate Transaction (as hereinafter defined), this Warrant shall terminate and cease to be outstanding, provided that written notice has been given to the Holder at least 20 days prior to the occurrence of the Corporate Transaction. For the purposes of this Warrant, "Corporate Transaction" shall mean: (i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction; or (ii) the sale, transfer or other disposition of all or substantially all of the Company's assets in complete liquidation or dissolution of the Company.

3. NET ISSUANCE.

3.1 RIGHT TO CONVERT. The Holder shall have the right to convert this Warrant or any portion thereof (the "CONVERSION RIGHT") into shares of Common Stock as provided in this Section 3 at any time or from time to time during the Exercise Period. Upon exercise of the Conversion Right with respect to a particular number of shares subject to the Warrant (the

"CONVERTED WARRANT SHARES"), the Company shall deliver to the Holder (without payment by the Holder of any exercise price or any cash or other consideration) that number of shares of fully paid and nonassessable shares of Common Stock computed using the following formula:

$$X = \frac{Y (A - B)}{A}$$

Where X = the number of shares of Common Stock to be delivered to the Holder

Y = the number of Converted Warrant Shares

A = the fair market value of one share of the Company's Common Stock on the Conversion Date (as defined below)

B = the Purchase Price (as adjusted through the Conversion Date)

The Conversion Right may only be exercised with respect to a whole number of shares subject to the Warrant. No fractional shares shall be issuable upon exercise of the Conversion Right, and if the number of shares to be issued determined in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash equal to the fair market value of the resulting fractional share on the Conversion Date (as defined below). Shares issued pursuant to the Conversion Right shall be treated as if they were issued upon the exercise of the Warrant.

3.2 METHOD OF EXERCISE. The Conversion Right may be exercised by the Holder by the surrender of the Warrant at the principal office of the Company together with a written statement specifying that the Holder thereby intends to exercise the Conversion Right and indicating the total number of shares under the Warrant that the Holder is exercising through the Conversion Right. Such conversion shall be effective upon receipt by the Company of the Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "CONVERSION DATE"). Certificates for the shares issuable upon exercise of the Conversion Right and, if applicable, a new warrant evidencing the balance of the shares remaining subject to the Warrant, shall be issued as of the Conversion Date and shall be delivered to the Holder promptly following the Conversion Date.

3.3 DETERMINATION OF FAIR MARKET VALUE. For purposes of this Section 3, fair market value of a share of Common Stock on the Conversion Date shall mean:

(1) If traded on a stock exchange, the fair market value of the Common Stock shall be deemed to be the average of the closing selling prices of the Common Stock on the stock exchange determined by the Board to be the primary market for the Common Stock over the ten (10) trading day period (or such shorter period immediately following the closing of an initial public offering) ending on the date prior to the Conversion Date, as such prices are officially quoted in the composite tape of transactions on such exchange;

(2) If traded over-the-counter, the fair market value of the Common Stock shall be deemed to be the average of the closing bid prices (or, if such information is available, the closing selling prices) of the Common Stock over the ten (10) trading day period (or such shorter period immediately following the closing of an initial public offering) ending on the date prior to the Conversion Date, as such prices are reported by the National Association of Securities Dealers through its NASDAQ system or any successor system; and

(3) If there is no public market for the Common Stock, then the fair market value shall be determined in good faith by the Board of Directors of the Company.

4. WHEN EXERCISE EFFECTIVE. The exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the business day on which this Warrant is surrendered to the Company as provided in Section 2.1, and at such time the person in whose name any certificate for shares of Common Stock shall be issuable upon such exercise, as provided in Section 5, shall be deemed to be the record holder of such Common Stock for all purposes.

5. DELIVERY ON EXERCISE. As soon as practicable after the exercise of this Warrant in full or in part, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder, or as the Holder may

direct, a certificate or certificates for the number of fully paid and nonassessable full shares of Common Stock to which the Holder shall be entitled on such exercise, together with cash, in lieu of any fraction of a share, equal to such fraction of the current market value of one full share of Common Stock as determined in good faith by the Board of Directors.

6. ADJUSTMENTS. The number and kind of shares of Common Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant and the Purchase Price shall be subject to adjustment from time to time upon the happening of certain events, as follows:

6.1 DIVIDENDS, DISTRIBUTIONS, STOCK SPLITS OR COMBINATIONS. If the Company shall at any time or from time to time after the date hereof (a) make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of common or preferred stock (as the case may be), (b) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock or (c) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, then and in each such event the Purchase Price then in effect and the number of shares issuable upon exercise of this Warrant shall be appropriately adjusted.

6.2 RECLASSIFICATION OR REORGANIZATION. If the Common Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant shall be changed into the same or different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend provided for in Section 6.1 above, or pursuant to a Corporate Transaction), then and in each such event the Holder shall be entitled to receive upon the exercise of this Warrant the kind and amount of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change, to which a holder of the number of shares of Common Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant would have received if this Warrant had been exercised immediately prior to such reorganization, reclassification or other change, all subject to further adjustment as provided herein.

6.3 NOTICE OF ADJUSTMENTS AND RECORD DATES. The Company shall promptly notify the Holder in writing of each adjustment or readjustment of the Purchase Price and the number of shares of Common Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant. Such notice shall state the adjustment or readjustment and show in reasonable detail the facts on which that adjustment or readjustment is based. In the event of any taking by the Company of a record of the holders of Common Stock for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, the Company shall notify Holder in writing of such record date at least twenty (20) days prior to the date specified therein.

6.4 WHEN ADJUSTMENTS TO BE MADE. No adjustment in the Purchase Price shall be required by this Section 6 if such adjustment either by itself or with other adjustments not previously made would require an increase or decrease of less than 1% in such price. Any adjustment representing a change of less than such minimum amount which is postponed shall be carried forward and made as soon as such adjustment, together with other adjustments required by this Section 6 and not previously made, would result in a minimum adjustment. Notwithstanding the foregoing, any adjustment carried forward shall be made no later than ten business days prior to the Expiration Date. All calculations under this Section 6.4 shall be made to the nearest cent. For the purpose of any adjustment, any specified event shall be deemed to have occurred at the close of business on the date of its occurrence.

6.5 CERTAIN OTHER EVENTS. If any change in the outstanding Common Stock of the Company or any other event occurs as to which the other provisions of this Section 6 are not strictly applicable or if strictly applicable would not fairly protect the purchase rights of the Holder of the Warrant in accordance with such provisions, then the Board of Directors of the Company shall make an adjustment in the number and class of shares available under the Warrant, the Purchase Price or the application of such provisions, so as to protect such purchase rights as aforesaid. The adjustment shall be such as will give the Holder of the Warrant upon exercise for the same aggregate Purchase Price the total number, class and kind of shares as the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the

event requiring adjustment.

7. REPLACEMENT OF WARRANTS. On receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of such Warrant, the Company at its expense will execute and deliver to the Holder, in lieu thereof, a new Warrant of like tenor.

8. NO RIGHTS OR LIABILITY AS A STOCKHOLDER. This Warrant does not entitle the Holder hereof to any voting rights or other rights as a stockholder of the Company. No provisions hereof, in the absence of affirmative action by the Holder to purchase Common Stock, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder as a shareholder of the Company.

9. REPRESENTATIONS OF HOLDER.

The Holder hereby represents, covenants and acknowledges to the Company that:

(1) this Warrant and the Warrant Shares are "restricted securities" as such term is used in the rules and regulations under the Act and that such securities have not been and will not be registered under the Act or any state securities law, and that such securities must be held indefinitely unless a transfer can be made pursuant to appropriate exemptions;

(2) the Holder has read, and fully understands, the terms of this Warrant set forth on its face and the attachments hereto, including the restrictions on transfer contained herein;

(3) the Holder is purchasing for investment for its own account and not with a view to or for sale in connection with any distribution of this Warrant or the Warrant Shares and it has no intention of selling such securities in a public distribution in violation of the federal securities laws or any applicable state securities laws;

(4) the Holder is an "accredited investor" within the meaning of paragraph (a) of Rule 501 of Regulation D promulgated by the Securities and Exchange Commission (the "Commission") and an "excluded purchaser" within the meaning of Section 25102(f) of the California Corporate Securities Law of 1968; and

(5) the Holder (i) has received all information the Holder has

requested from the Company and considers necessary or appropriate for deciding whether to acquire this Warrant, (ii) has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of this Warrant and to obtain any additional information necessary to verify the accuracy of the information given to the Holder, and (iii) has such knowledge and experience in financial and business matters such that the Holder is capable of evaluating the merits and risks of the investment in this Warrant.

10. MISCELLANEOUS.

10.1 TRANSFER OF WARRANT. This Warrant shall not be transferable or assignable by the Holder without the express written consent of the Company.

10.2 NOTICES. Any notice required or permitted under this Warrant shall be in writing and shall be hand delivered, sent by facsimile or other electronic medium, or mailed, postage prepaid, to the Company or to the Holder at the address set forth below on the signature page to this Warrant or to such other address as may be furnished in writing to the other party hereto.

10.3 ATTORNEYS' FEES. If any action at law or in equity is necessary to enforce or interpret the terms of this Warrant, the prevailing party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which such party may be entitled.

10.4 AMENDMENTS AND WAIVERS. Any term of this Warrant may be amended and the observance of any other term of this Warrant may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Holder.

10.5 SEVERABILITY. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision shall be excluded from this Warrant and the balance of the Warrant shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

10.6 GOVERNING LAW. This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of California, without giving effect to its conflicts of laws principles.

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IN WITNESS WHEREOF, the undersigned have caused this Warrant to be executed by its officers thereunto duly authorized.

DIGIRAD CORPORATION

By: _____

Address: 9350 Trade Place
San Diego, CA 92126-6334

HOLDER:

Address:

[SIGNATURE PAGE TO WARRANT OF DIGIRAD CORPORATION]

SCHEDULE 1

FORM OF SUBSCRIPTION

(To be signed only on exercise of Warrant)

To: Digirad Corporation

The undersigned, the holder of the Warrant attached hereto, hereby irrevocably elects to exercise the purchase rights represented by such Warrant for, and to purchase thereunder, _____* shares of common stock of Digirad Corporation, and herewith makes payment of $_____ therefor, and requests that the certificates for such shares be issued in the name of, and delivered to _____, whose address is _____.

(Signature must conform in all respects to name of the Holder as specified on the face of the Warrant)

(Print Name)

(Address)

Dated:

---

* Insert here the number of shares as to which the Warrant is being exercised.

SCHEDULE OF WARRANTHOLDERS

Date	Warrantholder	Price	Number of Shares
11/14/00	Cardiovascular Consultants	$1.50	10,000
11/14/00	Robert McKenzie	$3.04	500
01/04/01	Stephen A. McAdams	$1.50	10,000
01/04/01	John C. Whitham	$1.50	10,000
01/26/01	Oklahoma Cardiovascular Associates	$2.00	20,000
03/01/01	Stephen A. McAdams	$3.04	5,000
03/01/01	John C. Whitman	$3.04	5,000
03/28/01	Stephen A. McAdams	$3.04	10,000
03/28/01	John C. Whithman	$3.04	10,000
05/15/01	Stephen A. McAdams	$3.04	5,000
05/15/01	John C. Whitham	$3.04	5,000
05/15/01	Austin Heart	$3.04	10,000
07/19/01	Stephen A. McAdams	$3.04	50,000
07/19/01	John C. Whitham	$3.04	50,000

EXHIBIT 10.17

DIGIRAD CORPORATION

FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT

THIS FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT ("Agreement") is made and entered into as of November 10, 2000 by and among Digirad Corporation, a Delaware corporation (the "Company"), and each of the persons listed on Schedule 1 (each of which persons is referred to herein as an "Investor," and collectively, the "Investors").

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. PURCHASE AND SALE OF SERIES E PREFERRED STOCK.

1.1 SALE AND ISSUANCE OF SERIES E PREFERRED STOCK.

(a) The Company shall adopt and file with the Secretary of State of Delaware on or before the Closing (as defined below) the Amended and Restated Certificate of Incorporation in the form attached hereto as EXHIBIT A (the "Restated Certificate").

(b) Subject to the terms and conditions of this Agreement, each Investor agrees to purchase as applicable at the Closing, and the Company agrees to sell and issue to each Investor at the Closing, that number of shares of the Company's Series E Preferred Stock set forth opposite such Investor's name on Schedule 1 for the purchase price of $3.036 per share.

1.2 CLOSING. The purchase and sale of the Series E Preferred Stock shall take place at the offices of Brobeck, Phleger & Harrison LLP, San Diego, California, at 10:00 a.m., on November 10, 2000, or at such other time and place as the Company and Investors acquiring more than half the aggregate principal amount of the Series E Preferred Stock sold pursuant hereto shall mutually agree, in writing (which time and place are designated as the "Closing"). At the Closing, the Company shall deliver to each Investor a certificate representing the shares of Series E Preferred Stock that such Investor is purchasing at the Closing (as set forth on SCHEDULE 1) against payment of the purchase price therefor by check or wire transfer or such other form of payment as shall be mutually agreed upon by such Investor and the Company.

1.3 ADDITIONAL CLOSING(S).

(a) CONDITIONS OF ADDITIONAL CLOSING(S). At a per share purchase price of $3.036 per share and at any time from time to time on or before February 1, 2001, the Company may, at one or more additional closings (each an "Additional Closing"), without obtaining the signature, consent or permission of any of the Investors, offer and sell to additional investors (each a "New Investor") up to that number of shares of the Series E Preferred Stock of the Company available as authorized shares of Series E Preferred Stock in the Restated Certificate. A New Investor may include persons or entities who are already Investors under this Agreement.

(b) AMENDMENTS. The Company and the New Investors purchasing Series E Preferred Stock at each Additional Closing will execute counterpart signature pages to this

Agreement and to the Amended and Restated Co-Sale Agreement, attached hereto as EXHIBIT C (the "Co-Sale Agreement"), the Amended and Restated Investors' Rights Agreement, attached hereto as EXHIBIT D (the "Investors' Rights Agreement") and the Amended and Restated Series E Voting Agreement, attached hereto as EXHIBIT E (the "Voting Agreement") (collectively, the "Transaction Agreements") and such New Investors will, upon delivery to the Company of such signature pages, become parties to, and bound by, the Transaction Agreements, each to the same extent as if they had been Investors at the Closing. Immediately after each Additional Closing, SCHEDULE 1 to this Agreement will be amended to list New Investors purchasing shares of Series E Preferred Stock hereunder and the number of shares of Series E Preferred Stock purchased by each New Investor under this Agreement at each such Additional Closing. Any and all schedules or exhibits to the Transaction Agreements that refer to the Investors shall also be amended to include the New Investors.

(c) STATUS OF NEW INVESTORS. Upon the completion of each Additional Closing as provided in this Section 1.3, each New Investor will be deemed to be an "Investor" for all purposes under each of the Transaction Agreements.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company hereby represents and warrants to each Investor that, except as set forth on a Schedule of Exceptions furnished to each Investor and

attached hereto as EXHIBIT B, specifically identifying the relevant subparagraph(s) hereof, which exceptions shall be deemed to be representations and warranties as if made hereunder:

2.1 ORGANIZATION; GOOD STANDING; QUALIFICATION. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, has all requisite corporate power and authority to own and operate its properties and assets and to carry on its business as now conducted and as proposed to be conducted, to execute and deliver this Agreement, the Transaction Agreements and any other agreement to which the Company is a party, the execution and delivery of which is contemplated hereby, to issue and sell the Series E Preferred Stock and the Common Stock issuable upon conversion thereof or upon conversion of the Series E Preferred Stock, and to carry out the provisions of this Agreement and any Transaction Agreement. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its business, properties, prospects, or financial condition.

2.2 AUTHORIZATION. All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement, the Transaction Agreements and any other agreement to which the Company is a party, the execution and delivery of which is contemplated hereby, the performance of all obligations of the Company hereunder and thereunder at the Closing, and the authorization, issuance (or reservation for issuance), sale, and delivery of the Series E Preferred Stock and the Common Stock issuable upon conversion thereof has been taken or will be taken prior to the Closing. This Agreement and the Transaction Agreements constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting the enforcement of creditors' rights generally, (ii) as limited by

laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) to the extent the indemnification provisions contained therein may be limited by applicable federal or state securities laws.

2.3 VALID ISSUANCE OF PREFERRED AND COMMON STOCK. The Series E Preferred Stock being purchased by the Investors hereunder, when issued, paid for and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Series E Preferred Stock and under applicable state and federal securities laws. The Common Stock issuable upon conversion of the Series E Preferred Stock purchased under this Agreement has been duly and validly reserved for issuance and, when issued and paid for in accordance with the terms of the Restated Certificate, will be duly and validly issued, fully paid, and nonassessable and will be free of restrictions on transfer other than restrictions on transfer set forth in this Agreement and under applicable state and federal securities laws.

2.4 GOVERNMENTAL CONSENTS. No consent, approval, qualification, order or authorization of, or filing with, any local, state, or federal governmental authority is required on the part of the Company in connection with the Company's valid execution, delivery, or performance of this Agreement or any Transaction Agreement, the offer, sale or issuance of the Series E Preferred Stock or Common Stock upon conversion of the Series E Preferred Stock, except (i) the filing of the Restated Certificate with the Secretary of State of the State of Delaware, (ii) such filings as have been made prior to the Closing, and (iii) any notices of sale required to be filed with the Securities and Exchange Commission under Regulation D of the Securities Act of 1933, as amended (the "Securities Act"), or such post closing filings as may be required under applicable state securities laws, which will be timely filed within the applicable periods therefor.

2.5 CAPITALIZATION AND VOTING RIGHTS. The authorized capital of the Company consists, or will consist prior to the Closing, of:

(i) PREFERRED STOCK. Twenty-Seven Million One Hundred Twenty-Nine Thousand Five Hundred Sixty-Eight (27,129,568) shares of Preferred Stock (the "Preferred Stock"), of which 2,250,000 shares have been designated Series A Preferred Stock, all of which are issued and outstanding, 2,281,000 shares have been designated Series B Preferred Stock, all of which are issued and outstanding, 4,800,000 shares have been designated Series C Preferred Stock, all of which are issued and outstanding, 8,668,140 shares have been designated Series D Preferred Stock, all of which are issued and outstanding, and 9,130,428 shares have been designated Series E Preferred Stock, 4,004,965 of which are issued and outstanding and up to 4,611,330 of which may be issued pursuant to this Agreement. The rights, privileges and preferences of the Series A, Series B, Series C, Series D and Series E Preferred Stock are as stated in the Restated Certificate.

(ii) COMMON STOCK. Thirty-Six Million Four Hundred Thirty-Eight Thousand Seven Hundred Twenty-Nine (36,438,729) shares of Common Stock ("Common Stock"), of which 4,065,020 shares are issued and outstanding and up to 4,611,330 of which shall be validly reserved for issuance upon conversion of the Series E Preferred Stock issued pursuant to this Agreement.

(iii) The outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Common Stock have been issued in accordance with the registration or qualification provisions of the Securities Act and any relevant state securities laws or pursuant to valid exemptions therefrom.

(iv) Except for (A) the rights created under this Agreement, (B) the conversion privileges of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, (C) the right of first offer set forth in Section 1.3 of the Investors' Rights Agreement, and (D) currently outstanding options to purchase 4,548,794 shares of Common Stock granted to employees, consultants and advisors to the Company, there are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal), or agreements for the purchase or acquisition from the Company of any shares of its capital stock. Except for the voting rights of the holders of Preferred Stock as provided for in the Restated Certificate, the obligations provided for in that certain Amended and Restated Voting Agreement dated August 8, 1997, and except pursuant to this Agreement and the Transaction Agreements, the Company is not a party or subject to any agreement or understanding, and, to the best of the Company's knowledge, there is no agreement or understanding between any other persons that affects or relates to the voting or giving of written consents with respect to any security or the voting by a director of the Company.

2.6 SUBSIDIARIES. The Company does not own or control, directly or indirectly, any interest in any other corporation, association, or other business entity. The Company is not a participant in any joint venture, partnership, or similar arrangement.

2.7 CONTRACTS AND OTHER COMMITMENTS. The Company does not have any contract, agreement, lease, commitment, or proposed transaction, written or oral, absolute or contingent, to which the Company is a party or by which it is bound other than (i) contracts for the purchase of goods and services that were entered into in the ordinary course of business and that do not involve more than $100,000 each, and do not extend for more than one (1) year beyond the date hereof, (ii) sales or lease contracts entered into in the ordinary course of business, and (iii) contracts terminable at will by the Company on not more than thirty (30) days' notice without cost or liability to the Company and that do not involve any employment or consulting arrangement and are not material to the conduct of the Company's business. For the purpose of this paragraph, employment and consulting contracts and contracts with labor unions, and license agreements and any other agreements relating to the acquisition or disposition of any interest in the Company's technology (other than standard end-user license agreements) shall not be considered to be contracts entered into in the ordinary course of business.

2.8 RELATED-PARTY TRANSACTIONS. No employee, officer, or director of the Company or member of his or her immediate family is indebted to the Company, nor is the Company indebted (or committed to make loans or extend or guarantee credit) to any of them. To the Company's knowledge, none of such persons has any direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or any firm or corporation that competes with the Company, except that employees, officers, or directors of the Company and members of their immediate families may own stock in publicly traded companies that may compete with the Company. To the

Company's knowledge, no officer or director of the Company or any member of their immediate families is, directly or indirectly, interested in any material contract with the Company.

2.9 REGISTRATION RIGHTS. Except as provided in the Investors' Rights Agreement, the Company is not obligated to register under the Securities Act any of its presently outstanding securities or any of its securities that may subsequently be issued.

2.10 PERMITS. The Company has all franchises, permits, licenses, and any similar authority necessary for the conduct of its business as now being

conducted by it, the lack of which could materially and adversely affect the business, properties, prospects, or financial condition of the Company and can obtain, without undue burden or expense, any similar authority for the conduct of its business as planned to be conducted. The Company is not in default in any material respect under any of such franchises, permits, licenses or other similar authority.

2.11 COMPLIANCE WITH OTHER INSTRUMENTS. The Company is not in violation or default of any provision of its Restated Certificate or Bylaws or in any material respect of any provision of any mortgage, indenture, agreement, instrument, or contract to which it is a party or by which it is bound or, to the best of its knowledge, of any federal or state judgment, order, writ, decree, statute, rule, or regulation applicable to the Company. The execution, delivery, and performance by the Company of this Agreement and any Transaction Agreement, and the consummation of the transactions contemplated hereby and thereby will not result in any such violation or be in conflict with or constitute, with or without the passage of time or the giving of notice, either a default under any such provision or an event that results in the creation of any lien, charge, or encumbrance upon any assets of the Company (except as contemplated in this Agreement and any Transaction Agreement) or the suspension, revocation, impairment, forfeiture, or nonrenewal of any permit, license, authorization, or approval applicable to the Company, its business or operations, or any of its assets or properties, which suspension, revocation, impairment, forfeiture, or nonrenewal would be materially adverse to the Company.

2.12 LITIGATION. There is no action, suit, proceeding, or investigation pending or currently threatened against the Company that questions the validity of this Agreement or any Transaction Agreement or the right of the Company to enter into such agreements, or to consummate the transactions contemplated hereby or thereby, or that might result, either individually or in the aggregate, in any material adverse change in the assets, business, properties, prospects, or financial condition of the Company, or in any change in the current equity ownership of the Company. The foregoing includes, without limitation, any action, suit, proceeding, or investigation pending or currently threatened involving the prior employment of any of the Company's employees, their use in connection with the Company's business of any information or techniques allegedly proprietary to any of their former employers, their obligations under any agreements with prior employers, or negotiations by the Company with potential backers of, or investors in, the Company or its proposed business. The Company is not a party to, or to the best of its knowledge, named in any order, writ, injunction, judgment, or decree of any court, government agency, or instrumentality. There is no action, suit, or proceeding by the Company currently pending or that the Company currently intends to initiate.

2.13 RETURNS AND COMPLAINTS. The Company has received no customer or beta test participant complaints concerning alleged defects in its products (or the design thereof) that, if true, would materially adversely affect the assets, business, properties, prospects or financial condition of the Company.

2.14 DISCLOSURE. The Company has provided each Investor with all the information reasonably available to it that such Investor has requested for deciding whether to purchase the Series E Preferred Stock and all information that the Company believes is reasonably necessary to enable such Investor to make such decision. Neither this Agreement nor any other written statements or certificates made or delivered in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements herein or therein not misleading.

2.15 OFFERING. Subject in part to the truth and accuracy of each Investor's representations set forth in this Agreement, the offer, sale and issuance of the Series E Preferred Stock, and the Common Stock issuable upon conversion of the Series E Preferred Stock, as contemplated by this Agreement are exempt from the registration requirements of the Securities Act and applicable state securities laws, and neither the Company nor any authorized agent acting on its behalf will take any action hereafter that would cause the loss of such exemption.

2.16 TITLE TO PROPERTY AND ASSETS; LEASES. Except (i) as reflected in the Financial Statements (defined in paragraph 2.17), (ii) for liens for current taxes not yet delinquent, (iii) for liens imposed by law and incurred in the ordinary course of business for obligations not past due to carriers, warehousemen, laborers, materialmen and the like, (iv) for liens in respect of pledges or deposits under workers' compensation laws or similar legislation or (v) for minor defects in title, none of which, individually or in the aggregate, materially interferes with the use of such property, the Company owns its property and assets free and clear of all mortgages, liens, claims, and encumbrances. With respect to the property and assets it leases, the Company is in compliance with such leases and holds a valid leasehold interest free of any liens, claims, or encumbrances, which would be materially adverse to the Company, subject to clauses (i)-(v) above.

2.17 FINANCIAL STATEMENTS. The Company has delivered to each Investor its audited financial statements (balance sheet and profit and loss statement, statement of stockholders equity and statement of cash flows including notes thereto) at December 31, 1999, and for the fiscal year then ended and its unaudited financial statements (balance sheet and profit and loss statement) as at, and for the nine-month period ended September 30, 2000 (collectively, the "Financial Statements"). The Financial Statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated except that unaudited financial statements may not contain all footnotes required by generally accepted accounting principles. The Financial Statements fairly present the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein, subject in the case of the unaudited Financial Statements to normal year-end audit adjustments. Except as set forth in the Financial Statements, the Company has no liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to September 30, 2000 which are individually not in excess of $25,000 and in the aggregate not in excess of $100,000 and (ii) obligations under contracts and commitments

incurred in the ordinary course of business and not required under generally accepted accounting principles to be reflected in the Financial Statements, which, in both cases, individually or in the aggregate, are not material to the financial condition or operating results of the Company. Except as disclosed in the Financial Statements, the Company is not a guarantor or indemnitor of any indebtedness of any other person, firm, partnership, joint venture or corporation. The Company maintains and will continue to maintain a standard system of accounting established and administered in accordance with generally accepted accounting principles.

2.18 CHANGES. Since September 30, 2000, there has not been:

(a) any change in the assets, liabilities, financial condition, or operating results of the Company from that reflected in the Financial Statements, except changes in the ordinary course of business that have not been, in the aggregate, materially adverse;

(b) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the business, properties, prospects, or financial condition of the Company (as such business is presently conducted and as it is proposed to be conducted);

(c) any waiver by the Company of a valuable right or of a material debt owed to it;

(d) any satisfaction or discharge of any lien, claim, or encumbrance or payment of any obligation by the Company, except in the ordinary course of business and that is not material to the business, properties, prospects, or financial condition of the Company (as such business is presently conducted and as it is proposed to be conducted);

(e) any material change to a contract or arrangement by or to which the Company or any of its assets is bound or subject;

(f) any change in any compensation arrangement or agreement with any employee, officer, director or stockholder;

(g) any sale, assignment, or transfer of any interest in any patents, trademarks, copyrights, or trade secrets;

(h) any resignation or termination of employment of any key officer of the Company; and the Company does not know of the impending resignation or termination of employment of any such officer;

(i) receipt of notice that there has been a loss of, or material order cancellation by, any major customer of the Company;

(j) any mortgage, pledge, transfer of a security interest in, or creation of a lien by the Company with respect to any of its properties or assets, except liens for taxes not yet due or payable;

(k) any loans or guarantees made by the Company to or for the benefit of its employees, officers, or directors, or any members of their immediate families, other than travel advances and other similar advances made in the ordinary course of its business;

(l) any declaration, setting aside, or payment or other

distribution in respect of any of the Company's capital stock, or any direct or indirect redemption, purchase, or other acquisition of any of such stock by the Company;

(m) to the Company's knowledge, any other event or condition of any character that might materially and adversely affect the business, properties, prospects, or financial condition of the Company (as such business is presently conducted and as it is proposed to be conducted); or

(n) any agreement or commitment by the Company to do any of the things described in this paragraph 2.18.

2.19 PATENTS AND TRADEMARKS. The Company owns or possesses sufficient title and ownership of all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information, and proprietary rights and processes necessary for its business as now conducted and as proposed to be conducted without any conflict with, or infringement of the rights of, others. The Schedule of Exceptions contains a complete list of patents and pending patent applications of the Company. Except for agreements with its own employees or consultants, substantially in the form referenced in paragraph 2.22 below, and standard end-user license agreements, there are no outstanding options, licenses, or agreements of any kind relating to the foregoing, nor is the Company bound by or a party to any options, licenses, or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information, and proprietary rights and processes of any other person or entity which options, licenses or agreements are material to the Company or its business as now conducted and as proposed to be conducted. The Company has not received any communication alleging that the Company has violated or, by conducting its business as proposed, would violate any of the patents, trademarks, service marks, trade names, copyrights, trade secrets, or other proprietary rights or processes of any other person or entity and to the Company's knowledge without further investigation, the Company is not in such violation. The Company is not aware that any of the Company's employees is obligated under any contract (including licenses, covenants, or commitments of any nature) or other agreement, or subject to any judgment, decree, or order of any court or administrative agency, that would interfere with the use of such employee's best efforts to promote the interests of the Company or that would conflict with the Company's business as proposed to be conducted. Neither the execution nor delivery of this Agreement, nor the carrying on of the Company's business by the employees of the Company, nor the conduct of the Company's business as proposed, will, to the Company's knowledge, conflict with or result in a breach of the terms, conditions, or provisions of, or constitute a default under, any contract, covenant, or instrument under which any of such employees is now obligated. The Company does not believe it is or will be necessary to use any inventions of any of its employees (or persons it currently intends to hire) made prior to their employment by the Company.

2.20 MANUFACTURING AND MARKETING RIGHTS. The Company has not granted rights to manufacture, produce, assemble, license, market, or sell its products to any other person and is not bound by any agreement that affects the Company's exclusive right to develop, manufacture, assemble, distribute, market, or sell its products.

2.21 EMPLOYEES; EMPLOYEE COMPENSATION. To the best of the Company's knowledge, there is no strike, or labor dispute or union organization activities pending or threatened between it and its employees. To the best of the Company's knowledge, none of the Company's employees belongs to any union or collective bargaining unit. To the best of its knowledge, the Company has complied in all material respects with all applicable state and federal equal employment opportunity and other laws related to employment. To the best of the Company's knowledge, no employee of the Company is or will be in violation of any judgment, decree, or order, or any term of any employment contract, patent disclosure agreement, or other contract or agreement relating to the relationship of such employee with the Company, or any other party, because of the nature of the business conducted or to be conducted by the Company or to the use by the employee of his best efforts with respect to such business. The Company is not a party to or bound by any currently effective employment contract, deferred compensation agreement, bonus plan, incentive plan, profit sharing plan, retirement agreement, or other employee compensation agreement other than with respect to the Company's Stock Option Plan and options granted thereunder. The Company is not aware that any officer or key employee, or that any group of key employees, intends to terminate their employment with the Company, nor does the Company have a present intention to terminate the employment of any of the foregoing. Subject to general principles related to wrongful termination of employees, the employment of each officer and employee of the Company is terminable at the will of the Company.

2.22 PROPRIETARY INFORMATION AND INVENTIONS AGREEMENTS. Each employee and officer of the Company has executed a Proprietary Information and Inventions Agreement substantially in the form or forms which have been delivered to the Investors.

2.23 TAX RETURNS, PAYMENTS, AND ELECTIONS. The Company has filed all tax returns and reports as required by law. These returns and reports are true and correct in all material respects. The Company has paid all taxes and other assessments due, except those contested by it in good faith. The provision for taxes of the Company as shown in the Financial Statements is adequate for taxes due or accrued as of the date thereof. The Company has not elected pursuant to the Internal Revenue Code of 1986, as amended ("Code"), to be treated as an S corporation or a collapsible corporation pursuant to Section 1362(a) or Section 341(o) of the Code, nor has it made any other election pursuant to the Code (other than elections that relate solely to methods of accounting, depreciation, or amortization) that would have a material effect on the business, properties, prospects, or financial condition of the Company. The Company has never had any tax deficiency proposed or assessed against it and has not executed any waiver of any statute of limitations on the assessment or collection of any tax or governmental charge. None of the Company's federal income tax returns and none of its state income or franchise tax or sales or use tax returns has ever been audited by governmental authorities. Since the date of the Financial Statements, the Company has made adequate provisions on its books of account for all taxes, assessments, and governmental charges with respect to its business, properties, and operations for such period. The Company has withheld or collected from each payment made to each of its employees the amount of all taxes, including, but not limited to, federal income taxes,

Federal Insurance Contribution Act taxes and Federal Unemployment Tax Act taxes required to be withheld or collected therefrom, and has paid the same to the proper tax receiving officers or authorized depositories.

2.24 ENVIRONMENTAL AND SAFETY LAWS. To the best of its knowledge, the Company is not in violation of any applicable statute, law, or regulation relating to the environment or occupational health and safety, and to the best of its knowledge, no material expenditures are or will be required in order to comply with any such existing statute, law, or regulation.

2.25 SECTION 83(b) ELECTIONS. To the best of the Company's knowledge, all individuals who have purchased shares of the Company's Common Stock have timely filed elections under Section 83(b) of the Internal Revenue Code and any analogous provisions of applicable state tax laws.

2.26 MINUTE BOOKS. The minute books of the Company made available to special counsel to Investors contain a complete summary of all meetings of directors and stockholders since the Company's incorporation and reflect all transactions referred to in such minutes accurately in all material respects.

2.27 REAL PROPERTY HOLDING COMPANY. The Company is not a real property holding company within the meaning of Internal Revenue Code Section 897.

3. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS.

Each Investor hereby represents warrants, covenants and agrees that:

3.1 AUTHORIZATION. Such Investor has full power and authority to enter into this Agreement and that this Agreement constitutes a valid and legally binding obligation of such Investor.

3.2 PURCHASE ENTIRELY FOR OWN ACCOUNT. This Agreement is made with each Investor in reliance upon such Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Series E Preferred Stock or the Common Stock issuable upon conversion thereof (collectively, the "Securities") will be acquired for investment for such Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, distribute or grant participation to such person, or to any third person, with respect to any of the Securities.

3.3 RELIANCE UPON INVESTORS' REPRESENTATIONS. Each Investor understands that the issuance of the Securities may not be registered under the Securities Act on the ground that the sale provided for in this Agreement and the issuance of the Securities hereunder is exempt from registration under the Securities Act pursuant to Section 4(2) thereof and that the Company's reliance on such exemption is predicated on the Investors' representations set forth herein. Each Investor realizes that the basis for the exemption may not be present if, notwithstanding such representations, the Investor has in mind merely acquiring the Securities for a fixed or

determinable period in the future, or for a market rise, or for sale if the market does not rise. No Investor has any such intention.

3.4 RECEIPT OF INFORMATION. Each Investor believes such Investor has received all the information such Investor considers necessary for deciding whether to purchase the Series E Preferred Stock to be issued to it. Each Investor further represents that such Investor has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Series E Preferred Stock, and the business, properties, prospects, and financial condition of the Company and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify the accuracy of any information furnished to such Investor or to which such Investor had access. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Investors to rely thereon.

3.5 INVESTMENT EXPERIENCE. Each Investor represents that such Investor is experienced in evaluating and investing in securities of companies in the development state and acknowledges that such Investor is able to fend for himself, herself or itself, can bear the economic risk of such Investor's investment, and has such knowledge and experience in financial and business matters that such Investor is capable of evaluating the merits and risks of the investment in the Series E Preferred Stock. If other than an individual, Investor also represents such Investor has not been organized for the purpose of acquiring the Series E Preferred Stock, or if such Investor has been organized for the purpose of acquiring the Series E Preferred Stock that all investors in such fund are accredited.

3.6 ACCREDITED INVESTOR. Except as otherwise disclosed to the Company in writing, Investor either is (a) an accredited investor as defined in Rule 501(a) of Regulation D of the SEC under the Securities Act, or (b) neither (x) a national or resident of the United States, its territories, possessions or any area subject to its jurisdiction, nor (y) a corporation, partnership, trust or other entity created or organized in the United States, its territories, possessions or any area subject to its jurisdiction, nor (z) a corporation, partnership, trust or other entity, any of the equity owners of which is described in clause (x) or (y) above and agrees not to sell, hypothecate, pledge or otherwise dispose of any interest in the Securities in the United States, its territories, possessions or any area subject to its jurisdiction, or to any person who is a national thereof or resident therein (including any estate of such person), or any corporation, partnership or other entity created or organized therein, unless such securities have been either registered under the Securities Act, or are exempt from the registration requirements of the Securities Act, in the opinion of the Company's counsel, and Investor has complied with any restrictions on transfer contained in this Agreement.

3.7 RESTRICTED SECURITIES. Each Investor understands that the Series E Preferred Stock (and any Common Stock issued on conversion thereof) may not be sold, transferred, or otherwise disposed of without registration under the Securities Act or an exemption therefrom, and that in the absence of an effective registration statement covering the Preferred Stock or Common Stock issued on conversion thereof or an available exemption from registration under the Securities Act, the Series E

Preferred Stock (and any Common Stock issued on conversion thereof) must be held indefinitely. In particular, each Investor is aware that the Series E Preferred Stock (and any Common Stock issued on conversion thereof) may not be sold pursuant to Rule 144 promulgated under the Securities Act unless all of the conditions of that Rule are met. Among the conditions for use of Rule 144 may be the availability of current information to the public about the Company. Such information is not now available, and the Company has no present plans to make such information available.

3.8 CONFIDENTIALITY. Each Investor hereby represents, warrants and covenants that it shall maintain in confidence, and shall not use or disclose without the prior written consent of the Company, any information identified as confidential that is furnished to it by the Company in connection with this Agreement, including (without limitation) all financial statements, budget and other information delivered or provided to such Investor. This obligation of confidentiality shall not apply, however, to any information (i) in the public domain through no unauthorized act or failure to act by Investor, (ii) lawfully disclosed to Investor by a third party who possessed such information without any obligation of confidentiality, (iii) known previously by Investor or lawfully developed by Investor independent of any disclosure by the Company or (iv) required to be disclosed by law. Investor further covenants that Investor shall return to the Company all tangible materials containing such information upon request by the Company.

3.9 FURTHER LIMITATIONS ON DISPOSITION. Without in any way limiting the representations set forth above, each Investor further agrees not to make any disposition of all or any portion of the Preferred Stock or Common Stock issued

on conversion thereof without the consent of the Company, unless and until the transferee has agreed in writing for the benefit of the Company to be bound by this Section 3 and Section 7, provided and to the extent that such sections are applicable, and:

(a) There is then in effect a Registration Statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) The Investor shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition and, if reasonably requested by the Company, the Investor shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Securities Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144, as currently in existence, except in unusual circumstances.

(c) Notwithstanding the provisions of subsections (a) and (b) above, no such registration statement or opinion of counsel or consent of the Company shall be necessary for a transfer by an Investor to an affiliated entity which controls, is controlled by, or under common control with, the Investor, provided that the transferee agrees in writing for the benefit of the Company to be bound by this Section 3 and Section 7.

3.10 MARKET STAND-OFF AGREEMENT. Each Investor hereby agrees that it shall not, to the extent requested by the Company and an underwriter of Common Stock (or other securities) of the Company, sell or otherwise transfer or dispose (other than to those donees who agree to be similarly bound) of any Preferred Stock or Common Stock issued on conversion thereof during a

reasonable and customary period of time, as agreed to by the Company and the underwriters, not to exceed 180 days, following the effective date of a registration statement of the Company filed under the Securities Act; provided, however, that:

(a) such agreement shall be applicable only to the first such registration statement of the Company which covers shares (or securities) to be sold on its behalf to the public in an underwritten offering; and

(b) all officers and directors of the Company, all holders of at least one percent (1%) of the issued and outstanding securities of the Company and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Preferred Stock or Common Stock issued on conversion thereof of each Investor (and the shares or securities of every other person subject to the foregoing restriction) until the end of such reasonable and customary period.

4. CONDITIONS OF INVESTORS' OBLIGATIONS AT THE CLOSING.

The obligations of each Investor under subparagraph 1.1(b) of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions:

4.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Company contained in Section 2 shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing.

4.2 PERFORMANCE. The Company shall have performed and complied with all agreements, obligations, and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

4.3 COMPLIANCE CERTIFICATE. The President of the Company shall deliver to each Investor at the Closing a certificate certifying that the conditions specified in paragraphs 4.1 and 4.2 have been fulfilled.

4.4 PROCEEDINGS AND DOCUMENTS. All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to the Investors' special counsel, which shall have received all such counterpart original and certified or other copies of such documents as it may reasonably request.

4.5 OPINION OF COMPANY COUNSEL. Each Investor shall have received from Brobeck, Phleger & Harrison LLP, counsel for the Company, an opinion, dated as of the Closing, in form and substance satisfactory to the Investors.

4.6 CO-SALE AGREEMENT. The Company and each Investor shall have entered into the Amended and Restated Co-Sale Agreement, the form of which is attached hereto as EXHIBIT C.

4.7 INVESTORS' RIGHTS AGREEMENT. The Company and each Investor shall have entered into the Amended and Restated Investors' Rights Agreement, the form of which is attached hereto as EXHIBIT D.

4.8 VOTING AGREEMENT. The Company and each Investor shall have entered into the Amended and Restated Series E Voting Agreement, the form of which is attached hereto as EXHIBIT E.

4.9 STATE SECURITIES LAWS. The Company shall have obtained all necessary state securities law permits and qualifications, or have the availability of exemptions therefrom, required by any state for the offer and sale of the Series E Preferred Stock and the Common Stock issuable upon conversion of the Series E Preferred Stock.

4.10 RESTATED CERTIFICATE. The Restated Certificate shall have been filed with the Delaware Secretary of State.

5. CONDITIONS OF NEW INVESTORS' OBLIGATIONS AT ANY ADDITIONAL CLOSING.

The obligations of any New Investor under subparagraph 1.1(b) of this Agreement are subject to the fulfillment on or before each Additional Closing of each of the following conditions:

5.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Company contained in Section 2 shall be true on and as of the Additional Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing.

5.2 PERFORMANCE. The Company shall have performed and complied with all agreements, obligations, and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Additional Closing.

5.3 COMPLIANCE CERTIFICATE. The President of the Company shall deliver to each Investor at any Additional Closing a certificate certifying that the conditions specified in paragraphs 5.1 and 5.2 have been fulfilled.

5.4 PROCEEDINGS AND DOCUMENTS. All corporate and other proceedings in connection with the transactions contemplated at any Additional Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to the New Investors' special counsel, which shall have received all such counterpart original and certified or other copies of such documents as it may reasonably request.

5.5 CO-SALE AGREEMENT. Each New Investor shall have executed signature pages to the Amended and Restated Co-Sale Agreement, the form of which is attached hereto as EXHIBIT C.

5.6 INVESTORS' RIGHTS AGREEMENT. Each New Investor shall have executed signature pages to the Amended and Restated Investors' Rights Agreement, the form of which is attached hereto as EXHIBIT D.

5.7 VOTING AGREEMENT. Each New Investor shall have executed signature pages to the Amended and Restated Series E Voting Agreement, the form of which is attached hereto as EXHIBIT E.

5.8 STATE SECURITIES LAWS. The Company shall have obtained all necessary state securities law permits and qualifications, or have the availability of exemptions therefrom, required by any state for the offer and sale of the Series E Preferred Stock and the Common Stock issuable upon conversion of the Series E Preferred Stock.

6. CONDITIONS OF THE COMPANY'S OBLIGATIONS AT CLOSING AND ANY ADDITIONAL CLOSING.

The obligations of the Company to each Investor, or any New Investor, under this Agreement are subject to the fulfillment on or before the Closing, or any Additional Closing, of each of the following conditions by that Investor:

6.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of each Investor or any New Investor contained in Section 3 hereof shall be true on and as of the Closing, or any Additional Closing, with the same effect as though such representations and warranties had been made on and as of the date of the Closing.

6.2 STATE SECURITIES LAWS. The Company shall have obtained all necessary state securities law permits and qualifications, or have the availability of exemptions therefrom, required by any state for the offer and sale of the Series E Preferred Stock and the Common Stock issuable upon conversion of the Series E Preferred Stock.

6.3 PAYMENT OF PURCHASE PRICE. Each Investor or New Investor, as the case may be, shall have delivered the purchase price specified in Section 1.1.

6.4 RESTATED CERTIFICATE. The Restated Certificate shall have been filed with the Delaware Secretary of State.

7. MISCELLANEOUS.

7.1 ENTIRE AGREEMENT. This Agreement and the documents referred to herein constitute the entire agreement among the parties hereto and no party shall be liable or bound to any other party in any manner by any warranties, representations, or covenants except as specifically set forth herein or therein.

7.2 SURVIVAL OF WARRANTIES. The warranties, representations, and covenants of the Company and the Investors contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing.

7.3 SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, the terms conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including permitted transferees of any Series E Preferred Stock or Common Stock issued upon conversion thereof or upon conversion of Series E Preferred Stock). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

7.4 GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California.

7.5 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7.6 TITLES AND SUBTITLES. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

7.7 NOTICES. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified (or upon the date of attempted delivery where delivery is refused) or, if sent by telecopier, telex, telegram, or other facsimile means, upon receipt of appropriate confirmation of receipt, or upon deposit with the United States Postal Service, by registered or certified mail, or next day air courier, with postage and fees prepaid and addressed to the party entitled to such notice at the address indicated for such party on the signature page hereof, or at such other address as such party may designate by 10 days' advance written notice to the other parties to this Agreement.

7.8 FINDER'S FEES. Each party represents that it neither is nor will be obligated for any finder's fee or commission in connection with this transaction. Each Investor agrees to indemnify and to hold harmless the Company from any liability for and commission or compensation in the nature of a finder's fee (and the cost and expenses of defending against such liability or asserted liability) for which the Investor or any of its officers, partners, employees, or representatives is responsible.

The Company agrees to indemnify and hold harmless each Investor from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees, or representatives is responsible.

7.9 EXPENSES. Irrespective of whether the Closing is effected, each party shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery, and performance of this Agreement.

7.10 ATTORNEYS' FEES. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, any Transaction Agreement or any other agreement

contemplated hereby, the prevailing party shall be entitled to reasonable attorneys' fees, costs, and disbursements in addition to any other relief to which such party may be entitled.

7.11 AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of at least a majority of the Common Stock not previously sold to the public that is issued or issuable upon conversion of the Series E Preferred Stock purchased pursuant to this Agreement. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities have been converted), each future holder of all such securities, and the Company.

7.12 SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7.13 EXCULPATION AMONG INVESTORS. Each Investor acknowledges that it is not relying upon any person, firm, or corporation, other than the Company and its officers and directors, in making its investment or decision to invest in the Company. Each Investor agrees that no Investor nor the respective controlling persons, officers, directors, partners, agents, or employees of any Investor shall be liable for any action heretofore or hereafter taken or omitted to be taken by any of them in connection with the Series E Preferred Stock or Common Stock issued upon conversion thereof.

7.14 PUBLICITY. No party hereto shall originate any publicity, news release, or other public announcement, written or oral (a "Release"), relating to this Agreement, or to performance hereunder or the existence of an arrangement between the parties hereto without the prior written approval of each other party hereto, which approval will not be unreasonably withheld or delayed, except where such Release is required by applicable law; provided that in such event the party intending to issue the Release shall consult with the other party or parties with respect to the text thereof and such other party or parties shall be provided with a copy of the Release prior to its release.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY: DIGIRAD CORPORATION,
a Delaware corporation

By: /s/ Scott Huennekens

Scott Huennekens, President

NEW INVESTORS: KINGSBURY CAPITAL PARTNERS, L.P., III

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

KINGSBURY CAPITAL PARTNERS, L.P., IV

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

VECTOR LATER-STAGE EQUITY FUND II
(QP), L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

VECTOR LATER-STAGE EQUITY FUND II, L.P.

By: Vector Fund Management, II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

OCEAN AVENUE INVESTORS, LLC -
ANACAPA FUND

By: /s/ Michael Browne

Michael Browne
Manager

Address: 100 Wilshire Boulevard, Suite 1850
Santa Monica, CA 90401

HEALTH CARE INDEMNITY, INC.

By: Columbia/HCA Healthcare Corporation
Its: Investment Advisor

By: /s/ James Glasscock

James T. Glasscock
Vice-President, Investments

Address: One Park Plaza
Post Office Box 550
Nashville, TN 37202-0550

AUREUS DIGIRAD, LLC

By: /s/ Robert M. Averick

Its: Member

Name: Robert M. Averick

Address: 100 First Stamford Place

Stamford, CT 06902

MERRILL LYNCH VENTURES, LLC

By: /s/ Edward J. Higgins

Edward J. Higgins
Vice President

Address: 2 World Financial Center, 23rd Floor
New York, NY 10281
Attn: Robert F. Tully

MID CAROLINA CARDIOLOGY, PA

By: /s/ Stephen A. McAdams, M.D.

Its: Chief Executive Officer

Name: Stephen A. McAdams, M.D.

Address: 1718 East 4th Street, Suite 901
Charlotte, NC 28277
Attn: Stephen A. McAdams

STEPHEN ALAN MCADAMS AND LOU ANN MCADAMS, AS JOINT TENANTS

By: /s/ Stephen Alan McAdams

Stephen Alan McAdams

By: /s/ Lou Ann McAdams

Lou Ann McAdams

Address: 4901 Old Course Drive
Charlotte, NC 28277

AKINYELE ALUKO, M.D.

/s/ Akinyele Aluko

Akinyele Aluko, M.D.

Address: 5725 Laurium Road
Charlotte, NC 28226

JEROME WILLIAMS, JR., M.D.

/s/ Jerome Williams, Jr.

Jerome Williams, Jr., M.D.

Address: 4534 Rosecliff Drive

Charlotte, NC 28277

HARVEY FAMILY LLC

By: /s/ John Harvey

John Harvey
Manager

Address: 2305 NW Grand Boulevard
Oklahoma City, OK 73116

GFP DIGIRAD

By: /s/ Bruce Genoelman

Its: Managing Member

Name: Bruce Genoelman

Address: 4000 West Brown Deer Road
Milwaukee, WI 53209-1221

DWAYNE A. SCHMIDT

/s/ Dwayne A. Schmidt

Dwayne A. Schmidt

Address: 327 Northwest 14th Street
Oklahoma City, OK 73103

RICHARD N. LINDER AND JUDY F. LINDER

/s/ Richard N. Linder

Richard N. Linder

/s/ Judy F. Linder

Judy F. Linder

Address: 805 Polo Run
Collierville, TN 38017

FISK VENTURES LLC

By: /s/ illegible

Its: Manager

Address: 4041 North Main Street
Post Office Box 1919
Racine, Wisconsin 53401-1919

INGLEWOOD VENTURES, LP

By: /s/ illegible

Its: Member

Address: 12526 High Bluff Drive, Suite 300
San Diego, CA 92130

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL FOUNDATION INVESTMENT FUND, INC.

By: /s/ Mark W. Yusko

Mark W. Yusko

Its: Assistant Treasurer

Address: 308 West Rosemary Street, Suite 203
Chapel Hill, NC 27516

PALIVACINNI PARTNERS, LLC

By: /s/ Peter K. Shagory

Peter K. Shagory

Its: Manager

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

SCHEDULE 1

SCHEDULE OF INVESTORS

FIRST CLOSING - NOVEMBER 10, 2000

INVESTOR	SHARES TO BE PURCHASED	PURCHASE PRICE
Kingsbury Capital Partners, L.P., III	98,814	$299,999.31
Kingsbury Capital Partners, L.P., IV	230,566	$699,998.38
Vector Later-Stage Equity Fund II (QP), L.P.	123,517	$374,997.61
Vector Later-Stage Equity Fund II, L.P.	41,172	$124,998.19
Ocean Avenue Investors, LLC	164,690	$499,998.84

Anacapa Fund I Merrill Lynch Ventures, LLC	1,317,523	$3,999,999.82
Health Care Indemnity, Inc.	329,380	$999,997.68
Aureus Digirad, LLC	658,761	$1,999,998.40
Mid Carolina Cardiology, PA	32,938	$99,999.77
Stephen Alan McAdams and Lou Ann McAdams, as Joint Tenants	8,234	$24,998.42
TOTALS	3,005,595	$9,124,986.42

SCHEDULE 1

SCHEDULE 2

SCHEDULE OF INVESTORS

SECOND CLOSING - DECEMBER 8, 2000

INVESTOR	SHARES TO BE PURCHASED	PURCHASE PRICE
Akinyele Aluko, M.D.	8,234	$24,998.42
Harvey Family LLC	65,876	$199,999.54
GFP Digirad	83,992	$254,999.71
Jerome Williams, Jr., M.D.	6,587	$19,998.13
Dwayne A. Schmidt	8,234	$24,998.42
Richard N. and Judy F. Linder	8,234	$24,998.42
TOTALS	181,157	$549,992.64

SCHEDULE 2

SCHEDULE 3

SCHEDULE OF INVESTORS

THIRD CLOSING - JANUARY 19, 2001

INVESTOR	SHARES TO BE PURCHASED	PURCHASE PRICE
Fisk Ventures LLC	164,690	$499,998.84
IngleWood Ventures, LP	329,380	$999,997.68
The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	164,690	$499,998.84
Palivacinni Partners, LLC	24,703	$74,998.31
TOTAL:	683,463	$2,074,993.67

SCHEDULE 3

EXHIBIT A

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

DIGIRAD CORPORATION

Digirad Corporation, a corporation organized and existing under the laws of the state of Delaware, hereby certifies as follows:

1. The name of the corporation is Digirad Corporation. The date the Corporation filed its original Certificate of Incorporation with the Secretary of State was January 2, 1997.

2. This Amended and Restated Certificate of Incorporation restates and amends the provisions of the original Certificate of Incorporation of this Corporation as heretofore in effect and was duly adopted by the Corporation's Board of Directors in accordance with Sections 241 and 245 of the General Corporation Law of the State of Delaware.

3. The text of the Certificate of Incorporation is hereby amended and restated to read as herein set forth in full:

ARTICLE I

The name of the Corporation (hereinafter called "Corporation") is Digirad Corporation.

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is 30 Old Rudnick Lane, City of Dover, County of Kent 19901, and the name of the registered agent of the Corporation in the State of Delaware at such address is CorpAmerica, Inc.

ARTICLE III

The purpose of this Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

A. CLASSES OF STOCK. This Corporation is authorized to issue two (2) classes of shares, to be designated "Common" and "Preferred" and referred to herein as the "Common Stock" or the "Preferred Stock" respectively. The total number of shares of Common Stock the Corporation is authorized to issue is Thirty-Six Million Four Hundred Thirty-Eight Thousand Seven Hundred Twenty-Nine (36,438,729). The par value is $0.001 per share. The total number of shares of Preferred Stock the Corporation is authorized to issue is Twenty-Seven Million One Hundred Twenty-Nine Thousand Five Hundred Sixty-Eight (27,129,568). The par value is $0.001 per share.

The Board of Directors of the Corporation may divide the Preferred Stock into any number of series. The Board of Directors shall fix the designation and number of shares of each such series. The Board of Directors may determine and alter the rights, preferences, privileges and restrictions granted to and imposed upon any wholly unissued series of the Preferred Stock. The Board of Directors (within the limits and restrictions of any resolution adopted by it, originally fixing the number of shares of any series) may increase or decrease the number of shares of any such series after the issue of shares of that series, but not below the number of then outstanding shares of such series.

B. Rights, Preferences, Privileges and Restrictions of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

1. Designation of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

Two Million Two Hundred Fifty Thousand (2,250,000) shares of Preferred Stock are designated Series A Preferred Stock (the "Series A Preferred Stock") with the rights, preferences and privileges specified herein. Two Million Two Hundred Eighty-One Thousand (2,281,000) shares of Preferred Stock are designated Series B Preferred Stock (the "Series B Preferred Stock") with the rights, preferences and privileges specified herein. Four Million Eight Hundred Thousand (4,800,000) shares of Preferred Stock are designated Series C Preferred Stock (the "Series C Preferred Stock") with the rights, preferences and privileges specified herein. Eight million six hundred sixty-eight thousand one hundred forty (8,668,140) shares of Preferred Stock are designated Series D Preferred Stock (the "Series D Preferred Stock"). Nine Million One Hundred Thirty Thousand Four Hundred Twenty-Eight (9,130,428) shares of Preferred Stock are designated Series E Preferred Stock (the "Series E Preferred Stock"). As used in this Article IV, Division B, the term "Preferred Stock" shall refer to the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

2. DIVIDEND PROVISIONS.

The holders of shares of Preferred Stock shall be entitled to receive non-cumulative dividends, out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock of this Corporation) on the Common Stock or any other junior equity security of this Corporation, at the rate of $.10 per share of Series A Preferred Stock, $.11 per share of Series B Preferred Stock, $.125 per share of Series C Preferred Stock, $.23073 per share of Series D Preferred Stock and $.3036 per share of Series E Preferred Stock per annum plus an amount equal to that paid on outstanding shares of Common Stock of this Corporation, whenever funds are legally available therefor, payable quarterly when, as and if declared by the Board of Directors and shall be non-cumulative. Dividends, if declared, must be declared and paid with respect to all series of

Preferred Stock contemporaneously, and if less than full dividends are declared, the same percentage of the dividend rate will be payable to each series of Preferred Stock.

3. LIQUIDATION PREFERENCE.

(a) In the event of any liquidation, dissolution or winding up of this Corporation, either voluntary or involuntary, the holders of Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of this Corporation to the holders of Common Stock or any other junior equity security by reason of their ownership thereof an amount for each share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, respectively, held by such holder equal to the sum of (i) $1.00 for each such outstanding share of Series A Preferred Stock (the "Original Series A Issue Price"), (ii) $1.10 for each such outstanding share of Series B Preferred Stock (the "Original Series B Issue Price"), (iii) $1.25 for each such outstanding share of Series C Preferred Stock (the "Original Series C Issue Price"), (iv) $2.3073 for each outstanding share of Series D Preferred Stock (the "Original Series D Issue Price"), (v) $3.036 for each outstanding share of Series E Preferred Stock (the "Original Series E Issue Price") and (vi) in each case, an amount equal to all declared but unpaid dividends on each such share. If upon the occurrence of such an event the assets and funds thus distributed among the holders of the Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of this Corporation legally available for distribution shall be distributed, ratably among the holders of the Preferred Stock in proportion to the product of the liquidation preference of each such share and the number of such shares owned by each such holder.

(b) Upon the completion of the distribution required by subsection 3(a) above, if assets remain in the Corporation, the holders of the Common Stock shall receive an amount equal to $.21 per share (adjusted to reflect any subsequent stock splits, stock dividends, or other recapitalizations) for each share of Common Stock held by them. If, upon the occurrence of such event, the assets and funds thus distributed among the holders of the Common Stock shall be insufficient to permit payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of this Corporation legally available for distribution (after giving effect to the distribution referred to in Section 3(a) hereof) shall be distributed ratably among the holders of the Common Stock in proportion to the amount of such stock owned by each such holder.

(c) After the distributions described in subsections 3(a) and (b) have been paid, the remaining assets of this Corporation available for distribution to stockholders shall be distributed among the holders of Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock held by each (assuming conversion of all such Preferred Stock).

4. REDEMPTION.

(a) The outstanding Preferred Stock shall be redeemable as provided in this Section 4. The Series A Redemption Price shall be the total amount equal to $1.00 per share of Series A Preferred Stock to be redeemed together with any declared but unpaid

dividends on such shares to the Redemption Date (as such term is hereinafter defined). The Series B Redemption Price shall be the total amount equal to $1.10 per share of Series B Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series C Redemption Price shall be the total amount equal to $1.25 per share of Series C Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series D Redemption Price shall be the total amount equal to $2.3073 per share of Series D Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date. The Series E Redemption Price shall be the total amount equal to $3.036 per share of Series E Preferred Stock to be redeemed together with any declared but unpaid dividends on such shares to the Redemption Date.

(b) On or at any time after July 31, 2004, upon the receipt by this Corporation from the holders of at least 66-2/3% of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class, of a written request for redemption hereunder of their respective shares of Series A Preferred Stock, Series B Preferred Stock, Series

C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (the "Redemption Request"), this Corporation shall, from any source of funds legally available therefor, redeem all of the shares of Preferred Stock by paying in cash therefor a sum equal to the Series A Redemption Price, the Series B Redemption Price, the Series C Redemption Price, the Series D Redemption Price and the Series E Redemption Price, respectively.

(c) (i) At least 15, but no more than 30, days prior to the date fixed for any redemption of the Preferred Stock (the "Redemption Date"), which Redemption Date shall be no later than 45 days following the Corporation's receipt of the Redemption Request, written notice shall be mailed, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock to be redeemed at the address last shown on the records of this Corporation for such holder or given by the holder to this Corporation for the purpose of notice or if no such address appears or is given, at the place where the principal executive office of this Corporation is located, notifying such holder of the redemption to be effected, specifying the number of shares to be redeemed from such holder, the Redemption Date, the Series A Redemption Price, the Series B Redemption Price, the Series C Redemption Price, the Series D Redemption Price or the Series E Redemption Price as the case may be, the place at which payment may be obtained and the date on which such holder's Conversion Rights (as hereinafter defined) as to such shares, terminating and calling upon such holder to surrender to this Corporation, in the manner and at the place designated, such holder's certificate or certificates representing the shares to be redeemed (the "Redemption Notice"). Except as provided in subsection 4(c)(iii), on or after the Redemption Date, each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock to be redeemed shall surrender to this Corporation the certificate or certificates representing such shares, in the manner and at the place designated in the Redemption Notice, and thereupon the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, the Series D Redemption Price or the Series E Redemption Price, as the case may be, of such shares shall be payable, to the order of the person whose name appears on such certificate

or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(ii) If the funds of the Corporation legally available for redemption of outstanding shares of Preferred Stock on any Redemption Date are insufficient to redeem the total number of shares of Preferred Stock to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such shares ratably among the holders of (A) first, such shares of Series B, Series C, Series D and Series E Preferred Stock to be redeemed, and (B) second, such shares of Series A Preferred Stock to be redeemed. The shares of Preferred Stock not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein. At any time thereafter when additional funds of this Corporation are legally available for the redemption of shares of Preferred Stock, such funds shall immediately be used to redeem the balance of the shares which this Corporation has become obligated to redeem on any Redemption Date but which it has not redeemed.

(iii) From and after the Redemption Date, unless there shall have been a default in payment of the applicable Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price or the Series E Redemption Price, all rights of the holders of such shares as holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (except the right to receive the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price or the Series E Redemption Price, without interest, upon surrender of their certificate or certificates) shall cease with respect to such shares, and such shares shall not thereafter be transferred on the books of this Corporation or be deemed to be outstanding for any purpose whatsoever.

(iv) At least three days prior to the Redemption Date, this Corporation shall deposit the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price and Series E Redemption Price of all outstanding shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, designated for redemption in the Redemption Notice, and not yet redeemed or converted, with a bank or trust company having aggregate capital and surplus in excess of $50,000,000, as a trust fund for the benefit of the holders of the shares designated for redemption and not yet redeemed. Simultaneously, this Corporation shall deposit

irrevocable instructions and authority to such bank or trust company to pay, on and after the Redemption Date or prior thereto, the Series A Redemption Price, Series B Redemption Price, Series C Redemption Price, Series D Redemption Price and Series E Redemption Price, as the case may be, to the holders thereof upon surrender of their certificates. Any monies deposited by this Corporation pursuant to this subsection 4(c)(iv) for the redemption of shares which are thereafter converted into shares of Common Stock pursuant to Section 5 hereof no later than the close of business on the Redemption Date shall be returned to this Corporation forthwith upon such conversion. The balance of any monies deposited by this Corporation pursuant to this subsection 4(c)(iv) remaining unclaimed at the expiration of two years following the Redemption Date shall thereafter be returned to this Corporation, provided that the stockholder to which such monies would be payable hereunder shall be entitled, upon proof of its ownership of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock,

Series D Preferred Stock or Series E Preferred Stock, as the case may be, and payment of any bond requested by this Corporation, to receive such monies but without interest from the Redemption Date.

5. CONVERSION. The holders of Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) RIGHT TO CONVERT.

(i) Subject to subsection 5(c), each outstanding share of Preferred Stock shall be convertible, at the option of the holder thereof at any time after the date of issuance of such share (and on or prior to the fifth day prior to the Redemption Date, if any, as may have been fixed in any Redemption Notice), at the office of this Corporation or any transfer agent for such series of Preferred Stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the Original Series A Issue Price, the Original Series B Issue Price, the Original Series C Issue Price, the Original Series D Issue Price and the Original Series E Issue Price, respectively, by the Conversion Price at the time in effect for such series or shares of such series. The initial Conversion Price per share for shares of Preferred Stock shall be the Original Series A Issue Price, the Original Series B Issue Price, the Original Series C Issue Price, the Original Series D Issue Price and the Original Series E Issue Price, respectively, provided, however, that the Conversion Prices for the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock shall be subject to adjustment as set forth in subsection 5(c).

(ii) Each outstanding share of Preferred Stock shall automatically be converted into shares of Common Stock at the Conversion Price at the time in effect for such shares immediately upon:

(A) the closing of this Corporation's sale of its Common Stock in a bona fide, firm commitment underwritten public offering registered under the Securities Act of 1933, as amended (the "Securities Act"), which results in aggregate gross offering proceeds to this Corporation of at least $15,000,000, at a public offering price of not less than $7.50 per share (adjusted to reflect subsequent stock dividends, stock splits or recapitalizations) (a "Qualifying Public Offering"); or

(B) the approval of (i) holders of at least 75% of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting together as a single class and (ii) holders of not less than 60% of the Series D Preferred Stock voting as a class.

(b) MECHANICS OF CONVERSION. Before any holder of Preferred Stock shall be entitled to convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of this Corporation or of any transfer agent for such stock, and shall be given written notice by mail postage prepaid, to this Corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. This Corporation shall, as soon as practicable thereafter, issue and deliver at such

office to such holder of Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business

on the date of such surrender of the shares of such series of Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. If the conversion is in connection with an underwritten offer of securities registered pursuant to the Securities Act, the conversion may, at the option of any holder tendering shares of such series of Preferred Stock for conversion, be conditioned upon the closing with the underwriter of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common Stock issuable upon such conversion of shares of such series of Preferred Stock shall not be deemed to have converted such shares of such series of Preferred Stock until immediately prior to the closing of such sale of securities.

(c) CONVERSION PRICE ADJUSTMENTS OF THE PREFERRED STOCK. The Conversion Prices of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be subject to adjustment from time to time as follows:

(i) (A) If this Corporation shall issue any Additional Stock (as defined below) without consideration or for a consideration per share less than the Conversion Price for shares of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock in effect immediately prior to the issuance of such Additional Stock, the new Conversion Price for such shares of such series of Preferred Stock shall be determined by multiplying the Conversion Price for such series of Preferred Stock in effect immediately prior to the issuance of Additional Stock by a fraction:

(x) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of shares of Common Stock equivalents which the aggregate consideration received by this Corporation for the shares of such Additional Stock so issued would purchase at the Conversion Price in effect at the time for the shares of the series of Preferred Stock with respect to which the adjustment is being made; and

(y) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issuance (for purposes of this calculation only, including the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Preferred Stock at the Conversion Price for such shares in effect immediately prior to such issuance of Additional Stock) plus the number of such shares of Additional Stock so issued.

Any series of issuances of Additional Stock consisting of Common Stock or the same series of Preferred Stock, issued at the same price and within a six-month period, shall be treated as one issuance of Additional Stock for the purposes of this calculation.

(B) No adjustment of the Conversion Price for such series of Preferred Stock shall be made in an amount less than one cent per share, provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to three years from the date of the event giving rise to the adjustment being carried forward, or shall be made at the end of three years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in subsections 5(c)(i)(E)(3) and (c)(i)(E)(4), no adjustment of such Conversion Price for such series of Preferred Stock pursuant to this subsection 5(c)(i) shall have the effect of increasing the Conversion Price for such series of Preferred Stock above the Conversion Price for such series in effect immediately prior to such adjustment.

(C) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by this Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of the Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board of Directors irrespective of any accounting treatment.

(E) In the case of the issuance

of options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities (which are not excluded from the definition of Additional Stock), the following provisions shall apply:

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections 5(c)(i)(C) and (c)(i)(D)), if any, received by the Corporation upon the issuance of such options or rights plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby.

(2) The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by this Corporation for any such securities and related options or rights (excluding any cash received on

account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by this Corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subsections 5(c)(i)(C) and (c)(i)(D)).

(3) In the event of any change in the number of shares of Common Stock deliverable or any increase in the consideration payable to this Corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Conversion Price of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities, and any subsequent adjustments based thereon shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities; provided, however, that this section shall not have any effect on any conversion of such series of Preferred Stock prior to such change or increase.

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities or options or rights related to such securities, and any subsequent adjustments based thereon, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities; provided, however, that this section shall not have any effect on any conversion of such series of Preferred Stock prior to such expiration or termination.

(ii) "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection 5(c)(i)(E)) by this Corporation after June 22, 1998, other than:

(A) Common Stock issued pursuant to a transaction described in subsection 5(c)(iii) hereof, or

(B) 5,454,860 shares of Common Stock, net of repurchases and the cancellation or expiration of options, issued or issuable to employees, directors, consultants or advisors of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors commencing as of May 1994, and such other number of shares of Common Stock as may be fixed from time to time by the Board of Directors and approved by a majority of then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class, issued or issuable to employees, directors, consultants or advisors

of this Corporation under stock option and restricted stock purchase agreements approved by the Board of Directors, or

(C) Common Stock issued or issuable upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

(iii) In the event this Corporation should at any time or from time to time after the effective date hereof fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Conversion Price for the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase of outstanding shares determined in accordance with subsection 5(c)(i)(E).

(iv) If the number of shares of Common Stock outstanding at any time after the effective date hereof is decreased by a combination of the outstanding shares of Common Stock, then, following the record date of such combination, the Conversion Price for the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in outstanding shares.

(d) OTHER DISTRIBUTIONS. In the event this Corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by this Corporation or other persons, assets (excluding cash dividends) or options or rights not referred to in subsection 5(c)(iii), then, in each such case for the purpose of this subsection 5(d), the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of this Corporation into which their shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, are convertible as of the record date fixed for the determination of the holders of Common Stock of this Corporation entitled to receive such distribution.

(e) RECAPITALIZATIONS. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination or merger or sale of assets transaction provided for elsewhere in this Section 5 or Section 6) provision shall be made so that the holders of Series A Preferred Stock, Series B Preferred Stock, Series C

Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, shall thereafter be entitled to receive upon conversion of such series of Preferred Stock the number of shares of stock or other securities or property of this Corporation or otherwise, to which a holder of Common Stock deliverable upon conversion would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 5 with respect to the rights of the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, after the recapitalization to the end that the provisions of this Section 5 (including adjustment of the Conversion Price then in effect and the number of shares purchasable upon conversion of such series of Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(f) NO IMPAIRMENT. This Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, revitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by this Corporation, but will at all times in

good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock against impairment.

(g) FRACTIONAL SHARES AND CERTIFICATE AS TO ADJUSTMENTS.

(i) No fractional shares shall be issued upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, and the number of shares of Common Stock to be issued shall be rounded to the nearest whole share. Whether or not fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of such series of Preferred Stock the holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(ii) Upon the occurrence of each adjustment or, readjustment of the Conversion Price of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock, as the case may be, pursuant to this Section 5, this Corporation, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, or instrument convertible into shares of any such series of Preferred Stock, as the case may be, a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. This Corporation shall, upon the written request furnish or cause to be furnished to such holder a like certificate setting forth (A) such adjustment and readjustment, (B) the Conversion Price at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of a share of such series of Preferred Stock.

(h) NOTICES OF RECORD DATE. In the event of any taking by this Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, this Corporation shall mail to each holder of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock at least 20 days prior to the date specified therein, a notice specifying the date on which by such record is to be taken for the purpose of such dividend, distribution or right and the amount and character of such dividend, distribution or right.

(i) RESERVATION OF COMMON STOCK ISSUABLE UPON CONVERSION. This Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all authorized shares of such series of Preferred Stock, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then authorized shares of such series of Preferred Stock, in addition to such other remedies as shall be available to the holders of such series of Preferred Stock, this Corporation will take such corporate action as may, in the opinion of its counsel be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(j) NOTICES. Any notice required by the provisions of this Section 5 to be given to the holders of shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall be deemed given if deposited in the United States postage prepaid, and addressed to each holder of record at such holder's address appearing on the books of this Corporation.

6. MERGER; CONSOLIDATION.

(a) If at any time after the effective date hereof there is a merger, consolidation or other corporate reorganization in which stockholders of this Corporation immediately prior to such transaction own less than 50% of the voting securities of the surviving or controlling entity immediately after the transaction, or sale of all or substantially all of the assets of this Corporation (hereinafter, an "Acquisition"), then, as a part of such Acquisition, provision shall be made so that the holders of the Series A

Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and Series E Preferred Stock shall be entitled to receive, prior to any distribution to holders of Common Stock or other junior equity security of the Corporation, the number of shares of stock or other securities or property to be issued to this Corporation or its stockholders resulting from such Acquisition in an amount per share equal to the Original Series A Issue Price, Original Series B Issue Price, Original Series C Issue Price, Original Series D Issue Price and Original Series E Issue Price, as applicable, plus a further amount equal to any dividends declared but unpaid on such shares. Subject to the following sentence, the holders of Common Stock shall thereafter be entitled to receive, pro rata, the remainder of the number of shares of stock or other securities or

property to be issued to this Corporation or its stockholders resulting from such Acquisition. Notwithstanding anything to the contrary in this Section 6, in the event the aggregate value of stock, securities and other property to be distributed to this Corporation or its stockholders with respect to an Acquisition is less than $5.25 per share (such dollar amount to be appropriately adjusted to reflect any subsequent stock splits, stock dividends or other recapitalizations) of Common Stock outstanding (for purpose of this calculation only, including in the number of shares of Common Stock outstanding the number of shares of Common Stock then issuable upon conversion of all outstanding Preferred Stock), then the stock, securities or other property shall be distributed among the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock, Series E Preferred Stock and the Common Stock according to the provisions of Section 3 hereof as if such Acquisition were deemed a liquidation.

(b) Any securities to be delivered to the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock, Series E Preferred Stock and Common Stock pursuant to subsection 6(a) above shall be valued as follows:

(i) Securities not subject to investment letter or other similar restrictions on free marketability;

(A) If traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the 30-day period ending three days prior to the closing;

(B) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever are applicable) over the 30-day period ending three days prior to the closing; and

(C) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by the Corporation and the holders of not less than a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, the Series D Preferred Stock and Series E Preferred Stock.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in subsections 6(b)(i)(A), (B) or (C) to reflect the approximate fair market value thereof, as mutually determined by this Corporation and the holders of a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, voting as a single class.

(c) In the event the requirements of subsection 6(a) are not complied with, this Corporation shall forthwith either:

(i) cause such closing to be postponed until such time as the requirements of this Section 6 have been complied with, or

(ii) cancel such transaction, in which event the rights, preferences and privileges of the holders of the Series A Preferred Stock, Series B Preferred

Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall revert to and be the same as such rights, preferences and privileges existing immediately prior to the date of the first notice referred to in subsection 6(d) hereof.

(d) This Corporation shall give each holder of record of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock written notice of such impending transaction not later than 20 days prior to the stockholders' meeting called to approve such action, or 20 days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the impending transaction and the provisions of this Section 6, and this Corporation shall thereafter give such holders prompt notice of any material changes. The transaction shall in no event take place earlier than 20 days after the Corporation has given the first notice provided for herein or earlier than 10 days after the Corporation has given notice of any material changes provided for herein; provided, however, that such periods may be shortened upon the written consent of the holders of a majority of the then outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock voting as a class.

(e) The provisions of this Section 6 are in addition to the protective provisions of Section 8 hereof.

7. VOTING RIGHTS; DIRECTORS.

(a) The holder of each outstanding share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock shall have the right to one vote for each share of Common Stock into which such outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock could be converted on the record date for the vote or written consent of stockholders. In all cases any fractional share, determined on an aggregate conversion basis, shall be rounded to the nearest whole share. With respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled, notwithstanding any provision hereof to notice of any stockholders' meeting in accordance with the bylaws of this Corporation, and shall be entitled to vote, together with holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote.

(b) Notwithstanding subsection 7(a), (i) so long as at least fifty percent (50%) of the shares of Series A Preferred Stock and Series B Preferred Stock originally issued remain issued and outstanding, the holders of Series A Preferred Stock and Series B Preferred Stock, voting together as a separate class, shall be entitled to elect one member of the Board of Directors, (ii) so long as at least fifty percent (50%) of the shares of Series C Preferred Stock originally issued remain issued and outstanding, the holders of Series C Preferred Stock, voting as a separate class, shall be entitled to elect one member of the Board of Directors, (iii) so long as at least fifty percent (50%) of the shares of Series D Preferred Stock originally issued remain issued and outstanding, the holders of Series D Preferred Stock, voting as a separate class, shall be entitled to elect one member of the Board of Directors and (iv) so long as at least fifty percent

(50%) of the shares of Series E Preferred Stock originally issued remain issued and outstanding, the holders of Series E Preferred Stock, voting as a separate class, shall be entitled to elect one member of the Board of Directors. Any additional directors shall be elected by the holders of Preferred Stock and Common Stock, voting together as a single class.

A vacancy in any directorship elected by the holders of Series A Preferred Stock and Series B Preferred Stock shall be filled only by vote of the holders of Series A Preferred Stock and Series B Preferred Stock, voting together as a separate class; a vacancy in any directorship elected by the holders of Series C Preferred Stock shall be filled only by vote of the holders of Series C Preferred Stock; a vacancy in any directorship elected by the holders of Series D Preferred Stock shall be filled only by a vote of the holders of Series D Preferred Stock; and a vacancy in any directorship elected by the holders of Series E Preferred Stock shall be filled only by a vote of the holders of Series E Preferred Stock. Any vacancy in any other directorship shall be elected by the holders of Preferred Stock and Common Stock, voting together as one class.

This subsection 7(b) shall be void and of no further effect thereafter upon the occurrence of either of the following events:

(i) the closing of a Qualifying Public Offering;

(ii) upon the distribution to the stockholders pursuant to Section 3 or Section 6 hereof of the net proceeds of the sale of all or substantially all the assets of the Corporation.

8. PROTECTIVE PROVISIONS.

(a) In addition to any approvals required by law, so long as shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (voting, as one class, in accordance with Section 7):

(i) sell, convey, or otherwise dispose of all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) in which this Corporation is not the surviving corporation or effect any transaction or series of related transactions in which more than fifty percent (50%) of the voting power of this Corporation is disposed of, provided, however, that this restriction shall not apply to any mortgage, deed of trust, pledge or other encumbrance or hypothecation of the Corporation's or any of its subsidiaries' assets for the purpose of securing any contract or obligation; or

(ii) alter or change the rights, preferences, privileges or restrictions of the shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock; or

(iii) increase the authorized number of shares of Common Stock or Preferred Stock; or

(iv) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation; or

(v) pay or declare any dividend on its Common Stock or any other junior equity security other than a dividend in Common Stock of this Corporation; or

(vi) change the authorized number of directors; or

(vii) do any act or thing which would result in taxation of the holders of shares of Preferred Stock under section 305(b) of the Internal Revenue Code of 1986, as amended (or any comparable provision of the Internal Revenue Code as hereafter from time to time amended).

(b) In addition to any approvals required by law, so long as shares of Series C Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of Series C Preferred Stock, voting as a single class:

(i) alter or change the rights, preferences, privileges or restrictions of the shares of Series C Preferred Stock; or

(ii) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series C Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation.

(c) In addition to any approvals required by law, so long as shares of Series D Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding voting power of Series D Preferred Stock, voting as a single class:

(i) sell, convey, or otherwise dispose of all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) in which this Corporation is not the surviving corporation or effect any transaction or series of related transactions in which more than fifty percent (50%) of the voting power of this Corporation is disposed of, provided, however, that this restriction shall not apply to any mortgage, deed of trust, pledge or other encumbrance or hypothecation of the Corporation's or any of its subsidiaries' assets for the purpose of securing any contract or obligation; or

(ii) alter or change the rights,

preferences, privileges or restrictions of the shares of Series D Preferred Stock; or

(iii) increase the authorized number of shares of Series D Preferred Stock; or

(iv) increase the authorized number of directors; or

(v) create (by reclassification or otherwise) any new class or series of stock having a preference over, or being on a parity with, the Series D Preferred Stock with respect to voting, dividends, redemption or conversion or upon liquidation.

(d) In addition to any approvals required by law, so long as shares of Series E Preferred Stock are outstanding, this Corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least sixty-six percent (66%) of the then outstanding voting power of Series E Preferred Stock, voting as a single class:

(i) materially or adversely alter or change the rights, preferences or privileges of the shares of Series E Preferred Stock as a separate series in a manner that is dissimilar and disproportionate relative to the manner in which the rights, preferences or privileges of the other series of Preferred Stock are altered, or

(ii) increase the authorized number of shares of Series E Preferred Stock.

9. STATUS OF REDEEMED OR CONVERTED STOCK. In the event any shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or Series E Preferred Stock shall be redeemed or converted pursuant to Section 4 or 5 hereof the shares so redeemed or converted shall be cancelled and shall not be issuable by this Corporation, and the Certificate of Incorporation of this Corporation shall be appropriately amended to effect the corresponding reduction in this Corporation's authorized capital stock.

10. REPURCHASE OF SHARES. In connection with repurchases by this Corporation of its Common Stock pursuant to agreements with certain of the holders thereof approved by this Corporation's Board of Directors, each holder of Preferred Stock shall be deemed to have waived the application, in whole or in part, of any provisions of the Delaware General Corporation Law or any applicable law of any other state which might limit or prevent or prohibit such repurchases.

C. COMMON STOCK.

1. RELATIVE RIGHTS OF PREFERRED STOCK AND COMMON STOCK. All rights preferences, voting powers, relative, participating optional or other special rights and privileges, and qualifications, limitations, or restrictions of the Common Stock are expressly made subject and subordinate to those that may be fixed with respect to any shares of the Preferred Stock.

2. VOTING RIGHTS. Except as otherwise required by law or this Certificate of Incorporation, each holder of Common Stock shall have one vote in respect of each share of stock held by such holder of record on the books of the Corporation for the election of directors and on all matters submitted to a vote of stockholders of the Corporation.

3. DIVIDENDS. Subject to the preferential rights of the Preferred Stock, the holders of shares of Common Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of the assets of the Corporation which are by law available therefor, dividends payable either in cash, in property or in shares of capital stock.

4. DISSOLUTION, LIQUIDATION OR WINDING UP. In the event of any dissolution, liquidation or winding up of the affairs of the Corporation, after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of the Preferred Stock, holders of Common Stock shall be entitled to participate in any distribution of the assets of the Corporation in accordance with Section 3 of Article IV, Division B hereof.

5. NO PREEMPTIVE RIGHTS. The holders of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred

Stock, Series E Preferred Stock and Common Stock shall not have any preemptive rights. The foregoing shall not, however, prohibit the Corporation from granting contractual rights of first refusal to purchase securities to holders of Preferred Stock.

ARTICLE V

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware:

A. The Board of Directors of the Corporation is expressly authorized to adopt, amend or repeal the bylaws of the Corporation; provided, however, that the bylaws may only be amended in accordance with the provisions thereof and, provided further that, the authorized number of directors may be changed only with the approval of the holders of at least a majority of the then outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock (voting as one class) in accordance with Section 7 of Article IV Division B.

B. Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

C. The books of the Corporation may be kept at such place within or without the State of Delaware as the bylaws of the Corporation may provide or as may be designated from time to time by the Board of Directors of the Corporation.

ARTICLE VI

A. EXCULPATION.

1. CALIFORNIA. The liability of each and every director of this Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

2. DELAWARE. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a

director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is hereafter amended to further reduce or to authorize, with the approval of the Corporation's stockholders, further reductions in the liability of the Corporation's directors for breach of fiduciary duty, then a director of the Corporation shall not be liable for any such breach to the fullest extent permitted by the Delaware General Corporation Law as so amended.

3. CONSISTENCY. In the event of any inconsistency between Sections 1 and 2 of this Division A, the controlling Section, as to any particular issue with regard to any particular matter, shall be the one which provides to the director in question the greatest protection from liability.

B. INDEMNIFICATION.

1. CALIFORNIA. This Corporation is authorized to indemnify the directors and officers of this Corporation to the fullest extent permissible under California law. Moreover, this Corporation is authorized to provide indemnification of (and advancement of expenses to) agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 317 of the California Corporations Code, subject only to applicable limits set forth in Section 204 of the California Corporations Code, with respect to actions for breach of duty to the Corporation and its stockholders.

2. DELAWARE. To the extent permitted by applicable law, this Corporation is also authorized to provide indemnification of (and advancement of expenses to) such agents (and any other persons to which Delaware law permits this Corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the Delaware General Corporation Law, subject only to limits created by applicable Delaware law (statutory or non-statutory), with respect to actions for breach of duty to the Corporation, its stockholders and others.

3. CONSISTENCY. In the event of any inconsistency between Sections 1 and 2 of this Division B, the controlling Section, as to any

particular issue with regard to any particular matter, shall be the one which authorizes for the benefit of the agent or other person in question the provision of the fullest, promptest, most certain or otherwise most favorable indemnification and/or advancement.

C. EFFECT OF REPEAL OR MODIFICATION. Any repeal or modification of any of the foregoing provisions of this Article VI shall not adversely affect any right or protection of a director, officer, agent or other person existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director occurring prior to, such repeal or modification.

ARTICLE VII

The Corporation shall have perpetual existence.

ARTICLE VIII

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been executed as of this ____ day of November 2000.

DIGIRAD CORPORATION

By:

Scott Huennekens, President

[SIGNATURE PAGE TO
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION]

EXHIBIT B

SCHEDULE OF EXCEPTIONS

EXHIBIT B

SCHEDULE OF EXCEPTIONS

THIS SCHEDULE OF EXCEPTIONS IS MADE AND GIVEN WITH RESPECT TO SECTION 2 OF THE FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT, DATED AS OF NOVEMBER 10, 2000, BY AND AMONG DIGIRAD CORPORATION, A DELAWARE CORPORATION (THE "COMPANY"), AND THE INVESTORS LISTED ON SCHEDULE 1 ATTACHED THERETO (THE "PURCHASE AGREEMENT"). ALTHOUGH THE SECTION NUMBERS SET FORTH BELOW CORRESPOND TO THE SECTION NUMBERS IN THE PURCHASE AGREEMENT, ANY INFORMATION DISCLOSED HEREIN UNDER ANY SECTION NUMBER SHALL BE DEEMED TO BE DISCLOSED AND INCORPORATED INTO ANY OTHER SECTION NUMBER UNDER THE PURCHASE AGREEMENT WHERE SUCH DISCLOSURES WOULD BE APPROPRIATE. WHERE THE TERMS OF A LEASE, CONTRACT OR OTHER

DISCLOSURE ITEM HAVE BEEN SUMMARIZED OR DESCRIBED IN THIS SCHEDULE, SUCH SUMMARY OR DESCRIPTION DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE MATERIAL TERMS OF SUCH LEASE, CONTRACT OR OTHER ITEM. UNLESS THE CONTEXT OTHERWISE REQUIRES, ALL CAPITALIZED TERMS SHALL HAVE THE SAME MEANING AS DEFINED IN THE PURCHASE AGREEMENT. UNLESS OTHERWISE INDICATED BELOW, ALL REFERENCES TO THE CLOSING OR THE CLOSING DATE SHALL BE DEEMED TO REFER TO SUCH TERMS AS THEY ARE DEFINED IN THE PURCHASE AGREEMENT.

SECTION 2.5
CAPITALIZATION

1. Warrants to purchase 172,925 shares, 27,307 shares and 57,642 shares of Series E Preferred Stock at $3.036 per share were issued to Meier Mitchell & Company on October 27, 1999, May 9, 2000 and August 14, 2000 respectively.

2. Warrants to purchase 24,703 shares, 3,901 shares and 8,235 shares of Series E Preferred Stock at $3.036 per share were issued to Priority Capital on October 27, 1999, May 9, 2000 and August 14, 2000 respectively.

3. Upon the closing of this offering, the Company will issue warrants to purchase an aggregate of 65,876 shares of Series E Preferred Stock at $3.036 per share in connection with certain convertible promissory notes issued September 29, 2000 in the aggregate principal amount of $2,000,000.

SECTION 2.6
SUBSIDIARIES

The Company has formed the following subsidiaries: Orion Imaging Systems, Inc, a Delaware corporation, and Digirad Imaging Systems, Inc., a Delaware corporation.

SECTION 2.7
CONTRACTS AND OTHER COMMITMENTS.

The Company has, from time to time, entered into the following Consulting Agreements:

1. Bio-Reg Associates, Inc. Consulting Agreement dated November 20, 1995.

2. Makago Electronics, Inc. Project Consulting Agreement dated January 27, 1998.

3. Esther Saltz Consulting Agreement dated June 24, 1998.

4. Nadine Wang Project Consulting Agreement dated July 1, 1998.

5. Mel Davis Consulting Agreement dated July 20, 1998.

6. Michael Borton Consulting Agreement dated August 8, 1998.

7. Suzanne Farrand, CPA Consulting Agreement dated August 14, 1998.

8. Gilbert Pantoja Consulting Agreement dated August 14, 1998.

9. Frank J. Papatheofanis, MD, PhD Consulting Service Agreement dated March 4, 1999.

10. Separation and Consulting Agreement and General Release with Karen A. Klaus dated May 20, 1999.

11. Ted Tillinghast Mechanical Design Consulting Agreement dated June 14, 1999.

12. C4S Consulting Agreement dated July 26, 1999

13. Doyle & Associates Consulting Agreement dated September 13, 1999.

14. Charles Schmitz Consulting Agreement dated October 4, 1999.

15. Alex Shek Consulting Agreement dated December 3, 1999.

16. James Brunsch Consulting Agreement dated February 25, 2000.

17. Design & Development with Ogden Marsh & Associates dated February 18, 1998.

The Company has entered into the following Purchase Contracts (over

$100,000):

1. Purchase Order #70145 with QuickSil Inc. dated September 8, 2000 in the amount of $266,250.

2. Purchase Order #60274 with Nuclear Fields USA dated October 18, 2000 in the amount of $212,600.

3. Purchase Order # 51645 with Hilger Crystals, Ltd. dated February 2, 2000 in the amount of $350,631.

4. Purchase Order #52322 with Segami Corporation dated October 12, 2000 in the amount of $280,000.

The Company has, from time to time, entered into the following contracts:

1. Shareholders Agreement with Clinton L. Lingren, Jack F. Butler, and Gerald G. Loehr (as sole trustee of the Gerald G. Loehr Revocable Trust) dated May 13, 1994.

2. Stock Purchase Agreement (Series A Preferred Stock) with Kingsbury Capital Partners, L.P., dated May 13, 1994.

3. Restricted Stock Purchase Agreement with Clinton L. Lingren, Jack F. Butler, and Gerald G. Loehr dated May 9,1994.

4. Stock Purchase Agreement (Series A Preferred Stock) with Kingsbury Capital Partners, L.P., Gerald G. Loehr, Jack F. Butler, William L. Ashburn, and Karen A. Klause dated March 1, 1995.

5. Stock Purchase Agreement (Series A Preferred Stock) with Kenneth E. Olson Trust Dated 3/15/89, Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., II, Gerald G. and Linda J. Loehr Family Trust, Peter T. Dunn, Peter T. and Laura E. Dunn Trustees for the Dunn Family Trust, Nathan P. Dunn, Kyla E. Dunn and Karen A. Klause dated April 23, 1996.

6. Stock Purchase Agreement (Series B Preferred Stock) with Kingsbury Capital Partners, L.P. and Kingsbury Capital Partners, L.P., II dated December 8, 1995.

7. Stock Purchase Agreement (Common Stock) with Peter T. Dunn dated April 23, 1996.

8. Secured Convertible Promissory Notes dated September 6, 1996 in the aggregate principal amount of $5,000,000. Notes to convert to shares of Series C Preferred Stock as set forth in the promissory note agreements at the closing of the of the Series D Preferred Stock sale.

9. Secured Convertible Promissory Notes dated September 30, 1996 in the aggregate principal amount of $1,000,000. Notes to convert to shares of Series C Preferred Stock as set forth in the promissory note agreements at the closing of the of the Series D Preferred Stock sale.

10. Series D Preferred Stock Purchase Agreement dated August 8, 1997.

11. Series E Preferred Stock Purchase Agreement dated June 23, 1998.

12. Additional Series E Preferred Stock Agreement dated March 15, 2000.

13. Second Additional Series E Preferred Stock Agreement dated April 6, 2000.

14. Third Additional Series E Preferred Stock Agreement dated June 9, 2000.

15. Convertible Promissory Note with Health Care Indemnity, Inc. dated January 25, 2000.

16. Convertible Promissory Note and Warrant Purchase Agreements dated September 29, 2000 in the amount of $2,000,000.

17. Building Lease with Judd/King No. 1, a California general partnership, for 9350 Trade Place, San Diego, California dated January 27, 1998 for the period February 16, 1998 through March 31, 2002.

18. Building Lease with Research Diversified for 7408 Trade Street dated April 7, 1999 for the period August 1, 1999 through July 31,

2001.

19. Building Lease with John R. and Diana L. Purcell for 7390 Trade Street dated March 23, 1999 for the period May 1, 1999 through April 30, 2001.

20. Building Lease with Manohar P. Daryanani for 7394 Trade Street, San Diego, California 92121 dated November 23, 1999 for the period January 1, 2000 through December 31, 2000.

21. Building Lease with Western Salt Company for 7444 Trade Street, San Diego, California 92121 dated March 24, 1999 for the period April 1, 1999 through March 31, 2001.

22. Building Lease with James E. Piel and Ila Ree Piel for 7410 Trade Street, San Diego, California 92121 dated August 18, 1999 for the period September 1, 1999 through December 31, 2000.

23. Building Lease with Janice G. Brightman for 7414 Trade Street, San Diego, California 92121 dated August 4, 1999 for the period September 15, 1999 through September 14, 2000.

24. Amendment to building lease with Janice G. Brightman for 7414 Trade Street, San Diego, California 92121 dated August 10, 2000.

25. Letter of Intent regarding proposed acquisition of Nuclear Imaging Systems, Inc. nuclear medicine mobile service business dated May 11, 2000.

26. Asset Purchase Agreement by and among Digirad Corporation, Orion Imaging Systems, Inc., Florida Cardiology & Nuclear Medicine Group, P.A. and Dr. John Kilgore dated August 31, 2000.

27. Exclusive Placement Agent Agreement with Banc of America Securities LLC in connection with a proposed private placement of securities dated July 20, 2000.

28. Contract V797P6897a with Department of Veteran Affairs dated September, 20, 2000.

29. Service Agreement with Universal Servicetrends, Inc. dated August 25, 2000.

See disclosures in Section 2.19 with respect to Patents, Trademarks or other technology of the Company.

SECTION 2.8
RELATED-PARTY TRANSACTIONS.

The Company has, from time to time, entered into the following Loan Agreements with certain of its employees and directors.

1. Loan Agreement with Jack F. Butler in an aggregate amount of $245,000 dated September 1, 1993, as amended.

2. Loan Agreement with Clinton L. Lingren in an aggregate amount of $245,000 dated September 1, 1993, as amended.

3. Loan Agreement with Gerald G. Loehr (as sole trustee of the Gerald G. Loehr Revocable Trust) in an aggregate amount of $245,000 dated September 1, 1993, as amended.

4. Promissory Note Secured by Stock Pledge Agreement with Peter T. Dunn dated June 23, 1999 in the amount of $4,180.

5. Promissory Note Secured by Stock Pledge Agreement with Boris Apotovsky dated May 15, 2000 in the amount of $33,419.

6. Promissory Note Secured by Stock Pledge Agreement with Len Shaw dated May 15, 2000 in the amount of $35,000.

7. Promissory Note Secured by Stock Pledge Agreement with Shulai Zhao dated May 15, 2000 in the amount of $11,904.

8. Promissory Note Secured by Stock Pledge Agreement with Michael Robinson dated July 14, 2000 in the amount of $3,500.

9. Promissory Note Secured by Stock Pledge Agreement with Tim Collins dated August 9, 2000 in the amount of $5,682.

10. Promissory Note Secured by Stock Pledge Agreement with Joel Tuckey dated September 22, 2000 in the amount of $17,500.

11. Promissory Note with Kathy Byerley dated August 18, 2000 in the Famount of $5,000.

12. Promissory Note to Kingsbury Capital Partners, L.P. III dated September 29, 2000 in the aggregate principal amount of $300,000. Timothy Wollaeger, the Board of the Board of Directors, is a general partner in Kingsbury.

13. Promissory Note to Kingsbury Capital Partners, L.P. IV dated September 29, 2000 in the aggregate principal amount of $700,000. Timothy Wollaeger, a member of the Board of Directors, is a general partner in Kingsbury.

14. Promissory Note to Vector Later-Stage Equity Fund II (QP), L.P. Fin the aggregate principal amount of $375,000. Douglas Reed, a member of the Company's Board of Directors, is a general partner in Vector.

15. Promissory Note to Vector Later-Stage Equity Fund II, L.P. in the aggregate principal amount of $125,000. Douglas Reed, a member of the Company's Board of Directors, is a general partner in Vector.

SECTION 2.16
TITLE TO PROPERTY AND ASSETS; LEASES.

1. Loan and Security Agreement with MMC/GATX Partnership No. 1 dated FFOctober 27, 1999.

2. First Amendment to Loan and Security Agreement with MMC/GATX Partnership No. 1 dated August 14, 2000.

3. Loan and Security Agreement with Silicon Valley Bank dated April 1, 2000.

4. Amendment to Loan and Security Agreement with Silicon Valley Bank dated August 2, 2000.

5. Master Lease Agreement with GE Healthcare Financial Services dated September 26, 2000.

SECTION 2.17
FINANCIAL STATEMENTS

The following are liabilities individually in excess of $25,000 and in the aggregate in excess of $100,000:

1.	Arrow CNC Inc.	$80,982
2.	Brobeck, Phleger & Harrison	$85,412
3.	Crown Circuits, Inc.	$131,330
4.	Dynamic Details, Inc.	$43,008
5.	Federal Express Corp.	$28,690
6.	Hilger Crystals, Ltd.	$52,446
7.	Hughes Circuits, Inc.	$30,008
8.	IC Interconnect	$30,550
9.	J.W. Marketing Inc.	$45,959
10.	Juki Automation Systems	$93,416
11.	Massachusetts General Hospital	$124,895
12.	Mitel Semiconductor	$41,932
13.	Nuclear Fields USA	$75,634
14.	Onsite Commercial Staffing	$35,955
15.	Photopeak, Inc.	$63,220
16.	Prudential Insurance	$58,902
17.	Quicksil Corp.	$162,307
18.	Supercool Thermoelectric	$30,238
19.	Technology Imaging Services	$33,110
20.	Unisys Corporation	$25,150
21.	Vista Industrial Products	$34,031
22.	Wacker Siltronic Corporation	$41,039

SECTION 2.18
CHANGES.

(j) Schedules 01-10 to Equipment Lease agreement with MarCap Corporation dated October 1, 2000 in the amount of $1,969,837.

SECTION 2.19
PATENTS AND TRADEMARKS.

A. STATUS OF PATENT ACTIVITY

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*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

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*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

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B. STATUS OF TRADEMARK ACTIVITY

I. Registration of "Digirad"

Filed Application.....September 6, 1994
Patent Office Action.....February 7, 1995
Amended Application filed.....August 14, 1995
Patent Office Action.....April 23, 1996
Reconsideration requested.....July 5, 1996
Appeal filed.....October 18, 1996
Appeal Brief filed.....December 20, 1996
Examining Attorney's Appeal Brief filed.....March 10, 1997
Notice of Acceptance of Statement of Use.....March 2, 1999

II. Registration of "SpectrumPlus"

Application Serial No. 75/202,359 filed.....November 22, 1996

III. Registration of "Notebook Imager"

Application Serial No. 75/202,360 filed.....November 22, 1996

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

C. OPTIONS, LICENSES OR AGREEMENTS:

1. ASIC Development Agreement with Augustine Engineering dated April 10, 1998.

2. Development and Supply Agreement with QuickSil Inc. dated June 18, 1999.

3. Supply and Development with Ethicon Endo-Surgery, Inc. dated June 23, 1998.

4. Termination Agreement with Ethicon Endo-Surgery, Inc. dated June 22, 1999.

5. Memorandum of Agreement for the "High Resolution Breast Gamma Emission Imaging System" project with the University of Southern California dated April 23, 1997.

6. Research Agreement with University of California San Diego effective date May 28, 1996.

7. NIH Grant No. 2 R44 DK47761-02A1 entitled "Instrument for Real-Time Renal Monitoring" dated September 17, 1997. Amount $749,969.

8. Massachusetts General Hospital Phase II SBIR "Instrument for Real-Time Monitoring" SBIR Research and Option Subcontract dated February 16, 1998. Amount $340,000.

9. Option Agreement for Low-Resistivity Photon-Transparent Window Attached to Photo-Sensitive Silicon Detector with The Regents of the University of California through the Ernest Orlando Lawrence Berkeley National Laboratory dated June 3, 1998.

10. Research Agreement with The Regents of the University of California, San Diego dated October 30, 1998.

11. License Agreement for Detector with The Regents of the University of California through the Ernest Orlando Lawrence Berkeley National Laboratory dated April 30, 1999.

12. Software License Agreement with Segami Corporation dated June 16, 1999.

13. License Agreement with Science Applications International Corporation dated April 7, 2000.

SECTION 2.20
MANUFACTURING AND MARKETING RIGHTS.

1. Distribution and Supply Agreement with National Imaging Resources dated October 16, 1998.

2. Imager Distribution Agreement with Mitsui & Co., Ltd. Dated January 21, 2000.

3. Termination of Distribution and Supply Agreement with National Imaging Resources dated June 13, 2000.

4. Distribution and Supply Agreement with AND Canada, Inc. dated February 25, 2000.

5. Distribution and Supply Agreement with American Medical Systems dated April 26, 2000.

6. Distribution and Supply Agreement with AMIS dated May 2, 2000.

7. Distribution and Supply Agreement with CMS Imaging, Inc. dated July 18, 2000.

8. Distribution and Supply Agreement with Delta Imaging Systems dated April 26, 2000.

9. Distribution and Supply Agreement with Performance Medical Group, Inc. dated May 4, 2000.

10. National Account Agreement with Performance Medical Group, Inc. dated May 4, 2000.

SECTION 2.22
PROPRIETARY INFORMATION AND INVENTIONS AGREEMENTS.

To the Company's knowledge, the majority of its employees have executed copies of the Employee Proprietary Information and Inventions Agreement.

SECTION 2.23
TAX RETURNS, PAYMENTS, AND ELECTIONS.

The following tax items are noted:

1. The Company was audited by the Franchise Tax Board (State of California) for 1993, 1994, and 1995 in a routine examination. There were no deficiencies noted.

2. The Company paid a $1,180.31 penalty assessed against it by the

IRS for a tax deficiency that occurred in 1991.

SECTION 7.8
FINDER'S FEES

The Company has entered into an Exclusive Placement Agent Agreement with Banc of America Securities LLC ("BAS"), under which it may owe BAS fees and be obligated to issue BAS a warrant to purchase shares of Series E Preferred Stock in connection with the Closing.

EXHIBIT C

AMENDED AND RESTATED CO-SALE AGREEMENT

Filed separately as an Exhibit to this Registration Statement

EXHIBIT D

AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

Filed separately as an Exhibit to this Registration Statement

EXHIBIT E

AMENDED AND RESTATED SERIES E VOTING AGREEMENT

Filed separately as an Exhibit to this Registration Statement

AMENDMENT NUMBER ONE TO THE
FOURTH ADDITIONAL SERIES E PREFERRED STOCK
PURCHASE AGREEMENT

This Amendment Number One (this "Amendment") to the Fourth Additional Series E Preferred Stock Purchase Agreement dated as of November 10, 2000 (the "Agreement") is made as of March 9, 2001 by and among Digirad Corporation, a Delaware corporation (the "Company"), each of the undersigned entities listed hereto under the heading "New Investors" (the "New Investors") and the holders a majority of the Series E Preferred Stock purchased pursuant to the Agreement listed hereto under the heading "Prior Investors" (the "Prior Investors"). Capitalized terms used herein which are not defined herein shall have the definition ascribed to them in the Agreement.

RECITALS

A. The Company desires to sell and issue up to 150,362 additional shares of its Series E Preferred Stock to the New Investors pursuant to an Additional Closing under the Agreement.

B. The Company desires to amend the Agreement to permit the Company to conduct Additional Closings on or before March 30, 2001.

C. Section 7.11 of the Agreement provides that any term of the Agreement may be amended with the written consent of the Company and the holders

of at least a majority of the Common Stock issuable upon conversion of the Series E Preferred Stock issued pursuant to the Agreement.

In consideration of the foregoing and the promises and covenants contained herein and other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. AMENDMENT TO SECTION 1.3 OF THE AGREEMENT.

The parties hereby agree to amend and restate Section 1.3(a) of the Agreement in its entirety to state as follows:

(a) "CONDITIONS OF ADDITIONAL CLOSING(S). At a per share purchase price of $3.036 per share and at any time from time to time on or before March 30, 2001, the Company may, at one or more additional closings (each an "Additional Closing"), without obtaining the signature, consent or permission of any of the Investors, offer and sell to additional investors (each a "New Investor") up to that number of shares of the Series E Preferred Stock of the Company available as authorized shares of Series E Preferred Stock in the Restated Certificate. A New Investor may include persons or entities who are already Investors under this Agreement."

2. AMENDMENT TO SCHEDULES TO THE AGREEMENT.

The parties hereby agree to amend the Schedules to the Agreement to add Schedule 4, in the form attached hereto as EXHIBIT A.

3. EFFECT OF AMENDMENT.

Except as amended and set forth above, the Agreement shall continue in full force and effect.

4. COUNTERPARTS.

This Amendment may be executed in any number of counterparts, each which will be deemed an original, and all of which together shall constitute one instrument.

5. SEVERABILITY.

If one or more provisions of this Amendment is held to be unenforceable under applicable law, such provision shall be excluded from this Amendment and the balance of the Amendment shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

6. ENTIRE AGREEMENT.

This Amendment, together with the Agreement, constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof.

7. GOVERNING LAW.

This Amendment shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California.

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IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

COMPANY: DIGIRAD CORPORATION,
a Delaware corporation

By: /s/ Scott Huennekens

Scott Huennekens, President

NEW INVESTORS: KINGSBURY CAPITAL PARTNERS, L.P.

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

KINGSBURY CAPITAL PARTNERS, L.P., II

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

[SIGNATURE PAGE TO AMENDMENT NUMBER ONE TO
THE FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT]

ANACAPA INVESTORS, LLC -
ANACAPA I

By: /s/ Rob Raede

Rob Raede
Manager

Address: 32 W. Anapamu, #350
Santa Barbara, CA 93101

[SIGNATURE PAGE TO AMENDMENT NUMBER ONE TO
THE FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT]

PRIOR INVESTORS:

KINGSBURY CAPITAL PARTNERS, L.P. III

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

KINGSBURY CAPITAL PARTNERS, L.P., IV

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

AUREUS DIGIRAD, LLC

By: /s/ Robert M. Averick

Robert M. Averick,
Member

Address: 100 First Stamford Place
Stamford, CT 06902

MERRILL LYNCH VENTURES, LLC

By: /s/ Edward J. Higgins

Edward J. Higgins,
Vice President

Address: 2 World Financial Center, 23rd Floor
New York, NY 10281
Attn: Robert F. Tull

[SIGNATURE PAGE TO AMENDMENT NUMBER ONE TO
THE FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT]

EXHIBIT A

SCHEDULE 4

SCHEDULE OF INVESTORS

FOURTH CLOSING - MARCH 9, 2001

INVESTOR	SHARES TO BE PURCHASED	PURCHASE PRICE
Anacapa Investors, LLC	25,362	$76,999.03
Anacapa Fund I Kingsbury Capital Partners, L.P.	64,000	$194,304.00
Kingsbury Capital Partners, L.P. II	61,000	$185,196.00
TOTAL:	150,362	$456,499.03

AMENDMENT NUMBER TWO TO THE
FOURTH ADDITIONAL SERIES E PREFERRED STOCK
PURCHASE AGREEMENT

This Amendment Number Two (this "Amendment") to the Fourth Additional Series E Preferred Stock Purchase Agreement dated as of November 10, 2000, as amended (the "Agreement") is made as of March 16, 2001 by and among Digirad Corporation, a Delaware corporation (the "Company"), each of the undersigned entities listed hereto under the heading "New Investors" (the "New Investors"), and the holders a majority of the Series E Preferred Stock purchased pursuant to the Agreement listed hereto under the heading "Prior Investors" (the "Prior Investors"). Capitalized terms used herein which are not defined herein shall have the definitions ascribed to them in the Agreement.

RECITALS

A. The Company desires to sell and issue additional shares of its Series E Preferred Stock pursuant to Additional Closings as permitted under the Agreement.

B. Section 7.11 of the Agreement provides that any term of the Agreement may be amended with the written consent of the Company and the holders of at least a majority of the Common Stock issuable upon conversion of the Series E Preferred Stock issued pursuant to the Agreement.

In consideration of the foregoing and the promises and covenants contained herein and other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. ADDITIONAL CLOSINGS UNDER THE AGREEMENT.

Pursuant to Section 1.3 of the Agreement, the parties agree that on or before March 30, 2001, the Company may conduct Additional Closings, the next of which will occur March 16, 2001 with the New Investors in the amounts indicated on EXHIBIT A attached hereto. By their execution of this Amendment, the New Investors hereby enter into and become parties to the Agreement as if they had originally executed the signature pages to the Agreement and shall be deemed to be included within the definition of "Investors" thereunder. In addition, by their execution of counterpart signature pages to each of the Transaction Agreements, the Investors shall enter into and become parties to each of the Transaction Agreements and shall be deemed to be included within the definition of "New Investors" thereunder.

The parties further agree that pursuant to Section 1.3 of the Agreement, the Company may conduct Additional Closings on or before March 30, 2001 without obtaining the consent of the Prior Investors. Upon the execution of a counterpart signature page to this Amendment and the Transaction Agreements by any of such New Investors, such New Investors shall become parties to the Agreement and Transaction Agreements to the same extent as if they had executed this Amendment and Transaction Agreements as of the date hereof and shall be included in the definition of New Investors under this Amendment for all purposes. EXHIBIT A to this Amendment shall be automatically amended as appropriate to reflect the Additional Closing and

the addition of such individuals and/or entities as New Investors under this Amendment.

2. AMENDMENT TO SCHEDULES TO THE AGREEMENT.

The parties hereby agree to amend the Schedules to the Agreement to add Schedule 5, in the form attached hereto as EXHIBIT A.

3. EFFECT OF AMENDMENT.

Except as amended and set forth above, the Agreement shall continue in full force and effect.

4. COUNTERPARTS.

This Amendment may be executed in any number of counterparts, each which will be deemed an original, and all of which together shall constitute one instrument.

5. SEVERABILITY.

If one or more provisions of this Amendment is held to be unenforceable under applicable law, such provision shall be excluded from this Amendment and the balance of the Amendment shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

6. ENTIRE AGREEMENT.

This Amendment, together with the Agreement, constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof.

7. GOVERNING LAW.

This Amendment shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California.

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IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

COMPANY: DIGIRAD CORPORATION,
a Delaware corporation

By: /s/ Scott Huennekens

Scott Huennekens, President

NEW INVESTORS: THE ARTHUR & SOPHIE BRODY REVOCABLE TRUST DATED 4/13/89

By: /s/ illegible

Its: Trustee

Address: 990 Highland Drive, Suite 100
Solana Beach, CA 92075-2472
Attn: Arthur Brody

MALIN BURNHAM

By: /s/ Malin Burnham

Malin Burnham

Address: 610 West Ash Street, Suite 2000
San Diego, CA 92101-3350

DERBES FAMILY TRUST UDT DATED 4/25/86

By: /s/ Daniel W. Derbes

Daniel W. Derbes

Its: Trustee

Address: c/o Signal Ventures
777 South Pacific Coast Highway, Suite 107
Solana Beach, CA 92075
Attn: Dan Derbes

ELLIOT FEUERSTEIN TRUST DATED 5/14/82

By: /s/ Elliot Feuerstein

Its: Trustee

Address: 8924 Mira Mesa Boulevard
San Diego, CA 92126
Attn: Elliot Feuerstein

STANLEY & MAXINE FIRESTONE TRUST DATED 12/2/88

By: /s/ Stanley Firestone

Its: TTEE - Stanley Firestone

Address: c/o Malibu Clothes
259 South Beverly Drive
Beverly Hills, CA 90212
Attn: Stanley Firestone

THE STANLEY E. AND PAULINE M. FOSTER TRUST DATED 7/31/81

By: /s/ Stanley Foster

Its: Trustee

Address: 705 12th Avenue
San Diego, CA 92101
Attn: Stanley E. Foster

JOAN P KATZ TRUSTEE OF NON-EXEMPT TRUST C
UNDER IRA R. & JOAN K. KATZ QUALIFIED
MARITAL TRUST

By: /s/ Joan P. Katz

Its: Trustee

Address: c/o Evergreen Wealth Management
7911 Herschel Avenue, #311
La Jolla, CA 92037
Attn: Alan Aielo

KNOWLES FAMILY TRUST

By: /s/ illegible

Its: Trustee

Address: c/o Wall Street Property Company
1250 Prospect Avenue, Suite 200
La Jolla, CA 92038
Attn: Raymond V. Knowles

ARTHUR E. NICHOLAS

By: /s/ Arthur Nicholas

Its:

Address: c/o Nicholas-Applegate Capital
Management
600 West Broadway, 29th Floor
San Diego, CA 92101
Attn: Maureen Brown

THE FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT]

PAGE TRUST DATED 3/3/89

By: /s/ illegible

Its: Trustee

Address: 1904 Hidden Crest Drive
El Cajon, CA 92019
Attn: Tom Page

FORREST N. SHUMWAY & PATRICIA K.
SHUMWAY MARITAL TRUST DTD 4/26/94

By: /s/ Forrest Shumway

Its:

Address: 9171 Towne Centre Drive, Suite 410
San Diego, CA 92122-1238
Attn: Forrest N. Shumway

[SIGNATURE PAGE TO AMENDMENT NUMBER TWO TO
THE FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT]

PRIOR INVESTORS: AUREUS DIGIRAD, LLC

By: /s/ Robert Averick

Robert M. Averick,
Member

Address: 100 First Stamford Place
Stamford, CT 06902

MERRILL LYNCH VENTURES, LLC

By: /s/ Edward J. Higgins

Edward J. Higgins,
Vice President

Address: 2 World Financial Center, 23rd Floor
New York, NY 10281
Attn: Robert F. Tull

KINGSBURY CAPITAL PARTNERS, L.P.
KINGSBURY CAPITAL PARTNERS, L.P. II
KINGSBURY CAPITAL PARTNERS, L.P. III
KINGSBURY CAPITAL PARTNERS, L.P. IV

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

EXHIBIT A

SCHEDULE 5

SCHEDULE OF INVESTORS

FIFTH CLOSING - MARCH 16, 2001

INVESTOR	SHARES TO BE PURCHASED	PURCHASE PRICE
The Arthur & Sophie Brody Revocable Trust dated 04/13/89	24,671	$74,901.16
Malin Burnham	24,671	$74,901.16
Derbes Family Trust UDT Dated 04/25/86	24,671	$74,901.16
Elliot Feuerstein Trust dated 05/14/82	8,223	$24,965.03
Stanley & Maxine Firestone Trust dated 12/02/88	24,671	$74,901.16
The Stanley E. And Pauline M. Foster Trust dated 07/31/81	16,447	$49.933.09
Ira R. & Joan P. Katz Qualified Marital Trust	24,671	$74,901.16
Knowles Family Trust	24,671	$74,901.16
Arthur E. Nicholas Page Trust dated	82,236	$249,668.50

03/03/89					
24,671					
$74,901.16					
Forrest N. Shumway & Patricia K.					
16,447					
$49,933.09					
Shumway Marital Trust DTD 04/26/94 --					
------ ---- --------					
TOTAL:					
296,050					
$898,807.80					
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AMENDMENT NUMBER THREE TO THE
FOURTH ADDITIONAL SERIES E PREFERRED STOCK
PURCHASE AGREEMENT

This Amendment Number Three (this "Amendment") to the Fourth Additional Series E Preferred Stock Purchase Agreement dated as of November 10, 2000, as amended (the "Agreement") is made as of April 9, 2001 by and among Digirad Corporation, a Delaware corporation (the "Company"), Merrill Lynch Ventures, LLC (the "New Investor"), and the holders a majority of the Series E Preferred Stock purchased pursuant to the Agreement listed hereto under the heading "Prior Investors" (the "Prior Investors"). Capitalized terms used herein which are not defined herein shall have the definitions ascribed to them in the Agreement.

RECITALS

A. The Company desires to sell and issue additional shares of its Series E Preferred Stock to the New Investor pursuant to an Additional Closing as permitted under Section 1.3 of the Agreement.

B. In connection with its issuance of additional shares of Series E Preferred Stock to the New Investor, the Company has filed a Certificate of Amendment of Amended and Restated Certificate of Incorporation so as to authorize additional shares of Series E Preferred Stock issuable pursuant to the Agreement.

C. The Company desires to amend the Agreement to permit the Company to conduct Additional Closings on or before April 30, 2001.

D. Section 7.11 of the Agreement provides that any term of the Agreement may be amended with the written consent of the Company and the holders of at least a majority of the Common Stock issuable upon conversion of the Series E Preferred Stock issued pursuant to the Agreement.

In consideration of the foregoing and the promises and covenants contained herein and other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto agree as follows:

2. AMENDMENT TO SECTION 1.3 OF THE AGREEMENT.

The parties hereby agree to amend and restate Section 1.3(a) of the Agreement in its entirety to state as follows:

(a) "CONDITIONS OF ADDITIONAL CLOSING(S). At a per share purchase price of $3.036 per share and at any time from time to time on or before April 30, 2001, the Company may, at one or more additional closings (each an "Additional Closing"), without obtaining the signature, consent or permission of any of the Investors, offer and sell to additional investors (each a "New Investor") up to that number of shares of the Series E Preferred Stock of the Company available as authorized shares of Series E

Preferred Stock in the Restated Certificate. A New Investor may include persons or entities who are already Investors under this Agreement."

2. EFFECT OF AMENDMENT.

Pursuant to Section 1.3 of the Agreement, the parties agree that by its execution of this Amendment, the New Investor will hereby enter into and become party to the Agreement as if it had originally executed a signature page to the Agreement and shall be deemed to be included within the definition of "Investors" thereunder.

3. AMENDMENT TO SCHEDULES TO THE AGREEMENT.

The parties hereby agree to amend the Schedules to the Agreement to add Schedule 6, in the form attached hereto as EXHIBIT A.

4. EFFECT OF AMENDMENT.

Except as amended and set forth above, the Agreement shall continue in full force and effect.

5. COUNTERPARTS.

This Amendment may be executed in any number of counterparts, each which will be deemed an original, and all of which together shall constitute one instrument.

6. SEVERABILITY.

If one or more provisions of this Amendment is held to be unenforceable under applicable law, such provision shall be excluded from this Amendment and the balance of the Amendment shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7. ENTIRE AGREEMENT.

This Amendment, together with the Agreement, constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof.

8. GOVERNING LAW.

This Amendment shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

COMPANY: DIGIRAD CORPORATION,
a Delaware corporation

By: /s/ Scott Huennekens

Scott Huennekens, President

NEW INVESTOR: MERRILL LYNCH VENTURES, LLC

By: /s/ Edward J. Higgins

Edward J. Higgins,
Vice President

Address: 2 World Financial Center, 23rd Floor
New York, NY 10281
Attn: Robert F. Tull

[SIGNATURE PAGE TO AMENDMENT NUMBER THREE TO THE FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT]

PRIOR INVESTORS: MERRILL LYNCH VENTURES, LLC

By: /s/ Edward J. Higgins

Edward J. Higgins,
Vice President

Address: 2 World Financial Center, 23rd Floor
New York, NY 10281
Attn: Robert F. Tull

KINGSBURY CAPITAL PARTNERS, L.P.
KINGSBURY CAPITAL PARTNERS, L.P. II
KINGSBURY CAPITAL PARTNERS, L.P. III
KINGSBURY CAPITAL PARTNERS, L.P. IV

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

VECTOR LATER-STAGE EQUITY FUND II, L.P.
VECTOR LATER-STAGE EQUITY FUND II (QP), L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

[SIGNATURE PAGE TO AMENDMENT NUMBER THREE TO THE FOURTH ADDITIONAL SERIES E PREFERRED STOCK PURCHASE AGREEMENT]

ANACAPA INVESTORS, LLC -
ANACAPA I

By: /s/ Rob Raede

Rob Raede
Manager

Address: 32 W. Anapamu, #350
Santa Barbara, CA 93101

INGLEWOOD VENTURES, LP

By: /s/ Daniel C. Wood

Its: Member

Address: 12526 High Bluff Drive, Suite 300
San Diego, CA 92130

[SIGNATURE PAGE TO AMENDMENT NUMBER THREE TO

EXHIBIT A

SCHEDULE 6

SCHEDULE OF INVESTORS

SIXTH CLOSING - APRIL 9, 2001

INVESTOR	SHARES TO BE PURCHASED	PURCHASE PRICE
Merrill Lynch Ventures, LLC	808,836	2,455,626.10
TOTAL:	808,836	2,455,626.10

DIGIRAD CORPORATION

SERIES F PREFERRED STOCK PURCHASE AGREEMENT

THIS SERIES F PREFERRED STOCK PURCHASE AGREEMENT (this "Agreement") is made and entered into as of August 23, 2001 by and among Digirad Corporation, a Delaware corporation (the "Company"), and each of the persons listed on Schedule 1 (each of which persons is referred to herein as an "Investor," and collectively, the "Investors").

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. PURCHASE AND SALE OF SERIES F PREFERRED STOCK.

1.1 SALE AND ISSUANCE OF SERIES F PREFERRED STOCK.

(a) The Company shall adopt and file with the Secretary of State of Delaware on or before the Closing (as defined below) the Amended and Restated Certificate of Incorporation in the form attached hereto as EXHIBIT A (the "Restated Certificate").

(b) Subject to the terms and conditions of this Agreement, each Investor agrees to purchase as applicable at the Closing, and the Company agrees to sell and issue to each Investor at the Closing, that number of shares of the Company's Series F Preferred Stock set forth opposite such Investor's name on Schedule 1 for the purchase price of $3.25 per share.

1.2 CLOSING. The purchase and sale of the Series F Preferred Stock shall take place at the offices of Brobeck, Phleger & Harrison LLP, San Diego, California, at 10:00 a.m., on August 23, 2001, or at such other time and place as the Company and Investors acquiring more than half the aggregate principal amount of the Series F Preferred Stock sold pursuant hereto shall mutually agree, in writing (which time and place are designated as the "Closing"). At the Closing, the Company shall deliver to each Investor a certificate representing the shares of Series F Preferred Stock that such Investor is purchasing at the Closing (as set forth on SCHEDULE 1) against payment of the purchase price therefor by check or wire transfer or such other form of payment as shall be mutually agreed upon by such Investor and the Company.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company hereby represents and warrants to each Investor that, except as set forth on a Schedule of Exceptions furnished to each Investor and attached hereto as EXHIBIT B, specifically identifying the relevant subparagraph(s) hereof, which exceptions shall be deemed to be representations and warranties as if made hereunder:

2.1 ORGANIZATION; GOOD STANDING; QUALIFICATION. The Company and each of Digirad Imaging Solutions, Inc. and Digirad Imaging Services, Inc. (each, a "Subsidiary" and

collectively, the "Subsidiaries") is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, has all requisite corporate power and authority to own and operate its respective properties and assets and to carry on its respective business as now conducted and as proposed to be conducted. The Company has all requisite corporate power and authority to execute and deliver this Agreement, the Amended and Restated Investors' Rights Agreement, attached hereto as EXHIBIT C (the "Investors' Rights Agreement") and any other agreement to which the Company is a party, the execution and delivery of which is contemplated hereby, to issue and sell the Series F Preferred Stock and the Common Stock issuable upon conversion thereof or upon conversion of the Series F Preferred Stock, and to carry out the provisions of this Agreement and the Investors' Rights Agreement. The Company and each Subsidiary is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its respective business, properties, prospects, or financial condition.

2.2 AUTHORIZATION. All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement, the Investors' Rights Agreement and any other agreement to which the Company is a party, the execution and delivery of which is contemplated hereby, the performance of all obligations of the Company hereunder and thereunder at the Closing, and the authorization, issuance (or reservation for issuance), sale, and delivery of the Series F Preferred Stock and the Common Stock issuable upon conversion thereof has been taken or will be taken prior to the Closing. This Agreement and the Investors' Rights Agreement constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms except (i) as limited by applicable bankruptcy, insolvency,

reorganization, moratorium, and other laws of general application affecting the enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) to the extent the indemnification provisions contained therein may be limited by applicable federal or state securities laws.

2.3 VALID ISSUANCE OF PREFERRED AND COMMON STOCK. The Series F Preferred Stock being purchased by the Investors hereunder, when issued, paid for and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Investors' Rights Agreement and under applicable state and federal securities laws. The Common Stock issuable upon conversion of the Series F Preferred Stock purchased under this Agreement has been duly and validly reserved for issuance and, when issued and paid for in accordance with the terms of the Restated Certificate, will be duly and validly issued, fully paid, and nonassessable and will be free of restrictions on transfer other than restrictions on transfer set forth in this Agreement and the Investors' Rights Agreement and under applicable state and federal securities laws.

2.4 GOVERNMENTAL CONSENTS. No consent, approval, qualification, order or authorization of, or filing with, any local, state, or federal governmental authority is required on the part of the Company in connection with the Company's valid execution, delivery, or

performance of this Agreement or the Investors' Rights Agreement, the offer, sale or issuance of the Series F Preferred Stock or Common Stock upon conversion of the Series F Preferred Stock, except (i) the filing of the Restated Certificate with the Secretary of State of the State of Delaware, (ii) such filings as have been made prior to the Closing, and (iii) any notices of sale required to be filed with the Securities and Exchange Commission under Regulation D of the Securities Act of 1933, as amended (the "Securities Act"), or such post closing filings as may be required under applicable state securities laws, which will be timely filed within the applicable periods therefor.

2.5 CAPITALIZATION AND VOTING RIGHTS. The authorized capital of the Company consists, or will consist prior to the Closing, of:

(i) PREFERRED STOCK. Thirty Million Three Hundred Twenty One Thousand One Hundred Eight 30,321,108 shares of Preferred Stock (the "Preferred Stock"), of which 2,250,000 shares have been designated Series A Preferred Stock, all of which are issued and outstanding, 2,281,000 shares have been designated Series B Preferred Stock, all of which are issued and outstanding, 4,800,000 shares have been designated Series C Preferred Stock, all of which are issued and outstanding, 8,668,140 shares have been designated Series D Preferred Stock, all of which are issued and outstanding, 9,583,506 shares have been designated Series E Preferred Stock, 9,130,428 of which are issued and outstanding, and 2,738,462 shares have been designated Series F Preferred Stock, up to all of which may be issued pursuant to this Agreement. The rights, privileges and preferences of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock are as stated in the Restated Certificate. Each of the outstanding shares of Preferred Stock is currently convertible into one share of Common Stock pursuant to the terms of the Restated Certificate.

(ii) COMMON STOCK. Forty Two Million Seven Hundred Thirty Eight Thousand Four Hundred Sixty Two (42,738,462) shares of Common Stock ("Common Stock"), of which 4,586,082 shares are issued and outstanding and up to 2,738,462 of which shall be validly reserved for issuance upon conversion of the Series F Preferred Stock issued pursuant to this Agreement.

(iii) The outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Common Stock have been issued in accordance with the registration or qualification provisions of the Securities Act and any relevant state securities laws or pursuant to valid exemptions therefrom.

(iv) Except for (A) the rights created under this Agreement, (B) the conversion privileges of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, (C) the right of first offer set forth in Section 1.2 of the Investors' Rights Agreement, (D) currently outstanding options granted to employees, directors, consultants or advisors of the Company under stock option and restricted stock purchase agreements approved by the Board of

Directors commencing as of May 1994 (each, an "Option," and collectively, "Options") to purchase 5,952,426 shares of Common Stock and (E) currently outstanding warrants to purchase 403,078 shares of Series E Preferred Stock and 100,500 shares of Common Stock, there are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal), or agreements for the purchase or acquisition from the Company of any shares of its capital stock. Except for the voting rights of the holders of Preferred Stock as provided for in the Restated Certificate, the obligations provided for in that certain Amended and Restated Voting Agreement dated August 8, 1997 and that certain Amended and Restated Series E Voting Agreement dated November 10, 2000, as amended, and except pursuant to this Agreement and the Investors' Rights Agreement, the Company is not a party or subject to any agreement or understanding, and, to the best of the Company's knowledge, there is no agreement or understanding between any other persons that affects or relates to the voting or giving of written consents with respect to any security or the voting by a director of the Company.

2.6 SUBSIDIARIES. Section 2.6 of the Schedule of Exceptions contains a true and complete list of each corporation, limited liability company, association or other business entity in which the Company owns or controls, directly or indirectly, any interest. The Company is not a participant in any joint venture, partnership, or similar arrangement.

2.7 CONTRACTS AND OTHER COMMITMENTS.

(a) The Company does not have, and none of the Subsidiaries has, any contract, agreement, lease, commitment, or proposed transaction, written or oral, absolute or contingent, to which the Company or any Subsidiary is a party or by which it is bound other than (i) contracts for the purchase of goods and services that were entered into in the ordinary course of business and that do not involve more than $100,000 each, and do not extend for more than one (1) year beyond the date hereof, (ii) sales or lease contracts entered into in the ordinary course of business, and (iii) contracts terminable at will by the Company or the applicable Subsidiary on not more than thirty (30) days' notice without cost or liability to the Company or such applicable Subsidiary and that do not involve any employment or consulting arrangement and are not material to the conduct of the business of the Company or the Subsidiaries. For the purpose of this paragraph, employment and consulting contracts and contracts with labor unions, and license agreements and any other agreements relating to the acquisition or disposition of any interest in the respective technology of the Company and the Subsidiaries (other than standard end-user license agreements) shall not be considered to be contracts entered into in the ordinary course of business.

(b) The contracts set forth on the Schedule of Exceptions are defined herein as the "Material Contracts." Copies of all Material Contracts have been made available to the Investors and their counsel. Each Material Contract is in full force and effect and will continue in full force and effect following the consummation of the transactions contemplated by this Agreement. The Company and, as applicable, each Subsidiary has fulfilled and performed in all material respects its obligations under each of the Material Contracts required to be performed prior to the date hereof, and to the best knowledge of the Company and the Subsidiaries neither the Company nor any Subsidiary is alleged to be in breach or default under, nor to the best

knowledge of the Company and the Subsidiaries is there alleged to be any basis for termination of, any of the Material Contracts. To the best knowledge of the Company and the Subsidiaries, no other party to any of the Material Contracts has materially breached or defaulted thereunder, and no event has occurred and no condition or state of facts exists which, with the passage of time or the giving of notice or both, would constitute such a default or breach by the Company, any of the Subsidiaries, or by any such other party.

2.8 RELATED-PARTY TRANSACTIONS. No employee, officer, or director of the Company or the Subsidiaries or member of his or her immediate family is indebted to the Company or the Subsidiaries, nor is the Company or any Subsidiary indebted (or committed to make loans or extend or guarantee credit) to any of them. To the knowledge of the Company and the Subsidiaries, none of such persons has any direct or indirect ownership interest in any firm or corporation with which the Company or any Subsidiary is affiliated or with which the Company or any Subsidiary has a business relationship, or any firm or corporation that competes with the Company or any Subsidiary, except that employees, officers, or directors of the Company and the Subsidiaries and members of their immediate families may own stock in publicly traded companies that may compete with the Company. To the knowledge of the Company and the Subsidiaries, no officer or director of the Company or the

Subsidiaries or any member of their immediate families is, directly or indirectly, interested in any Material Contract with the Company or the Subsidiaries.

2.9 REGISTRATION RIGHTS. Except as provided in the Investors' Rights Agreement, the Company is not obligated to register under the Securities Act any of its presently outstanding securities or any of its securities that may subsequently be issued, and the Company has not granted or agreed to grant any registration rights, including piggyback registration rights, to any person or entity.

2.10 COMPLIANCE WITH LAW; PERMITS; HEALTH-CARE REGULATORY MATTERS.

(a) The Company and each Subsidiary has since inception and currently conducts its respective business in accordance with all laws, rules, regulations, and governmental orders applicable to the Company and each Subsidiary or any of their respective assets or businesses. Neither the Company nor any Subsidiary has received any notice alleging any default or violation of any such law, rule, regulation or governmental order or has knowledge of any events or conditions which may constitute potential defaults or violations.

(b) The Company and each Subsidiary has, and all professional employees or agents of each of the Company and its Subsidiaries have, all licenses, franchises, permits, authorizations, including certificates of need, or approvals from all Governmental Authorities required for the conduct of the business of each of the Company and its Subsidiaries as now being conducted by them, the lack of which could materially and adversely affect the respective business, properties, prospects, or financial condition of the Company or any Subsidiary and can obtain, without undue burden or expense, any similar authority for the conduct of its respective business as planned to be conducted. Neither the Company nor any Subsidiary or the

professional employees or agents of either is in default in any material respect under any of such franchises, permits, licenses or other similar authority.

(c) FRAUD AND ABUSE MATTERS. Neither the Company nor any Subsidiary, nor the officers, directors, employees or agents of any of the Company or any Subsidiary, have engaged in any activities which are prohibited, or are cause for criminal or civil penalties or mandatory or permissive exclusion from Medicare, Medicaid or any other Federal Health Care Program, under ss.ss. 1320a-7, 1320a-7a, 1320a-7b, or 1395nn of Title 42 of the United States Code, the Federal Employees Health Benefits program statute, or the regulations promulgated pursuant to such statutes or regulations or related state or local statutes or which are prohibited by any private accrediting organization from which the Company or any its Subsidiaries seeks accreditation or by generally recognized professional standards of care or conduct, including but not limited to the following activities:

(i) knowingly and willfully making or causing to be made a false statement or representation of a material fact in any application for any benefit or payment;

(ii) knowingly and willfully making or causing to be made any false statement or representation of a material fact for use in determining rights to any benefit or payment;

(iii) presenting or causing to be presented a claim for reimbursement under Medicare, Medicaid or any other Federal Health Care Program that is (i) for an item or service that the person presenting or causing to be presented knows or should know was not provided as claimed, or (ii) for an item or service and the person presenting knows or should know that the claim is false or fraudulent;

(iv) knowingly and willfully offering, paying, soliciting or receiving any remuneration (including any kickback, bribe, or rebate), directly or indirectly, overtly or covertly, in cash or in kind (i) in return for referring, or to induce the referral of, an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by Medicare, Medicaid, or any other Federal Health Care Program, or (iii) in return for, or to induce, the purchase, lease, or order, or the arranging for or recommending of the purchase, lease, or order, of any good, facility, service, or item for which payment may be made in whole or in part by Medicare, Medicaid or any other Federal Health Care Program; or

(v) knowingly and willfully making or causing to be made or inducing or seeking to induce the making of any false statement or representation (or omitting to state a material fact required to be stated

therein or necessary to make the statements contained therein not misleading) or a material fact with respect to (i) the conditions or operations of a facility in order that the facility may qualify for Medicare, Medicaid or any other Federal Health Care Program certification, or (ii) information required to be provided under SSA ss. 1124A.

(d) MEDICARE/MEDICAID PARTICIPATION. Neither the Company nor to the best knowledge of the Company (without having performed any investigation or due diligence) any other person who after the Closing will have a direct or indirect ownership interest (as those terms are defined in 42 C.F.R. ss. 1001.1001(a)(2)) in the Company or any Subsidiary, or who will have an ownership or control interest (as defined in SSA ss. 1124(a)(3) or any regulations promulgated thereunder) in the Company or any Subsidiary, or who will be an officer, director, agent (as defined in 42 C.F.R. ss. 1001.1001(a)(2)), or managing employee (as defined in SSA ss. 1126(b)) of the Company or any Subsidiary has, as of the date of this Agreement: (1) had a civil monetary penalty assessed against it under SSA ss. 1128A; (2) been excluded from participation under Medicare, Medicaid or any other Federal Health Care Program; (3) been convicted (as that term is defined in 42 C.F.R. ss. 1001.2) of any of the following categories of offenses as described in SSA ss. 1128(a) and (b)(1), (2), (3):

(i) criminal offenses relating to the delivery of an item or service under Medicare, Medicaid or any other Federal Health Care Program;

(ii) criminal offenses under federal or state law relating to patient neglect or abuse in connection with the delivery of a health care item or service;

(iii) criminal offenses under federal or state law relating to fraud, theft, embezzlement, breach of fiduciary responsibility, or other financial misconduct in connection with the delivery of a health care item or service or with respect to any act or omission in a program operated by or financed in whole or in part by any federal, state or local government agency;

(iv) federal or state laws relating to the interference with or obstruction of any investigation into any criminal offense described in (a) through (c) above; or

(v) criminal offenses under federal or state law relating to the unlawful manufacture, distribution, prescription or dispensing of a controlled substance.

(e) DEFINITIONS. For purposes of this section 2.10, the following definitions apply:

(i) "Federal Health Care Program" has the meaning set forth in SSA Section 1128B(f).

(ii) "Governmental Authority" means any branch, component, agency or instrumentality of federal, state or local government.

(iii) "SSA" means the federal Social Security Act and all regulations promulgated pursuant thereto.

2.11 COMPLIANCE WITH OTHER INSTRUMENTS. Neither the Company nor any Subsidiary is in violation or default of any provision of its respective Restated Certificate or Bylaws or in any material respect of any provision of any mortgage, indenture, agreement, instrument, or

contract to which it is a party or by which it is bound or any federal or state judgment, order, writ, decree applicable to the Company or the Subsidiaries. The execution, delivery, and performance by the Company of this Agreement and the Investors' Rights Agreement, and the consummation of the transactions contemplated hereby and thereby will not result in any such violation or be in conflict with or constitute, with or without the passage of time or the giving of notice, either a default under any such provision or an event that results in the creation of any lien, charge, or encumbrance upon any assets of the Company or the Subsidiaries (except as contemplated in this Agreement and the Investors' Rights Agreement) or the suspension, revocation, impairment, forfeiture, or nonrenewal of any permit, license, authorization, or approval applicable to the Company or any of the Subsidiaries, its respective business or operations, or any of its respective assets or properties, which suspension, revocation, impairment, forfeiture, or nonrenewal would be materially adverse to the Company or any of the

Subsidiaries.

2.12 LITIGATION. There is no action, suit, proceeding, or investigation pending or currently threatened against the Company that questions the validity of this Agreement or the Investors' Rights Agreement or the right of the Company to enter into such agreements, or to consummate the transactions contemplated hereby or thereby, or that might result, either individually or in the aggregate, in any material adverse change in the assets, business, properties, prospects, or financial condition of the Company or the Subsidiaries, or in any change in the current equity ownership of the Company or the Subsidiaries. The foregoing includes, without limitation, any action, suit, proceeding, or investigation pending or currently threatened involving the prior employment of any of the respective employees of the Company or any Subsidiary, their use in connection with the business of the Company or any Subsidiary of any information or techniques allegedly proprietary to any of their former employers, their obligations under any agreements with prior employers, or negotiations by the Company or any Subsidiary with potential backers of, or investors in, the Company or its proposed business. Neither the Company nor any Subsidiary is a party to, nor to the best of its respective knowledge, named in any order, writ, injunction, judgment, or decree of any court, government agency, or instrumentality. There is no action, suit, or proceeding by the Company or any Subsidiary currently pending or that the Company or any Subsidiary currently intends to initiate.

2.13 RETURNS AND COMPLAINTS. Neither the Company nor any Subsidiary has received customer or beta test participant complaints concerning alleged defects in its respective products (or the design thereof) that, if true, would materially adversely affect the assets, business, properties, prospects or financial condition of the Company or any Subsidiary.

2.14 DISCLOSURE. The Company has provided each Investor with all the information reasonably available to it that such Investor has requested for deciding whether to purchase the Series F Preferred Stock and all information that the Company believes is reasonably necessary to enable such Investor to make such decision. Neither this Agreement nor any other written statements or certificates made or delivered in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements herein or therein not misleading.

2.15 OFFERING. Subject in part to the truth and accuracy of each Investor's representations set forth in this Agreement, the offer, sale and issuance of the Series F Preferred Stock, and the Common Stock issuable upon conversion of the Series F Preferred Stock, as contemplated by this Agreement are exempt from the registration requirements of the Securities Act and applicable state securities laws, and neither the Company nor any authorized agent acting on its behalf will take any action hereafter that would cause the loss of such exemption.

2.16 TITLE TO PROPERTY AND ASSETS; LEASES. Except (i) as reflected in the Financial Statements (defined in paragraph 2.17), (ii) for liens for current taxes not yet delinquent, (iii) for liens imposed by law and incurred in the ordinary course of business for obligations not past due to carriers, warehousemen, laborers, materialmen and the like, (iv) for liens in respect of pledges or deposits under workers' compensation laws or similar legislation or (v) for minor defects in title, none of which, individually or in the aggregate, materially interferes with the use of such property, the Company and each Subsidiary owns its respective property and assets free and clear of all mortgages, liens, claims, and encumbrances. With respect to the property and assets it leases, the Company and each Subsidiary is in compliance with such leases and holds a valid leasehold interest free of any liens, claims, or encumbrances, which would be materially adverse to the Company or any Subsidiary, subject to clauses (i)-(v) above.

2.17 FINANCIAL STATEMENTS. The Company has delivered to each Investor its audited financial statements (balance sheet and profit and loss statement, statement of stockholders equity and statement of cash flows including notes thereto) at December 31, 2000, and for the fiscal year then ended and its unaudited financial statements (balance sheet and profit and loss statement) as at, and for the six-month period ended June 30, 2001 (collectively, the "Financial Statements"). The Financial Statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated except that unaudited Financial Statements may not contain all footnotes required by generally accepted accounting principles. The Financial Statements fairly present the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein, subject in the case of the unaudited Financial Statements to normal year-end audit adjustments. Except as set forth in the Financial Statements, neither the Company nor any Subsidiary has any liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to June 30, 2001 which are individually not in excess of $50,000 and in the aggregate

not in excess of $200,000 and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under generally accepted accounting principles to be reflected in the Financial Statements, which, in both cases, individually or in the aggregate, are not material to the financial condition or operating results of the Company or any Subsidiary. Except as disclosed in the Financial Statements, neither the Company nor any Subsidiary is a guarantor or indemnitor of any indebtedness of any other person, firm, partnership, joint venture or corporation. The Company maintains and will continue to maintain a standard system of accounting established and administered in accordance with generally accepted accounting principles.

2.18 CHANGES. Since June 30, 2001, there has not been:

(a) any change in the assets, liabilities, financial condition, or operating results of the Company or any Subsidiary from that reflected in the Financial Statements, except changes in the ordinary course of business that have not been, in the aggregate, materially adverse;

(b) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the business, properties, prospects, or financial condition of the Company or any Subsidiary (as such business is presently conducted and as it is proposed to be conducted);

(c) any waiver by the Company or any Subsidiary of a valuable right or of a material debt owed to it;

(d) any satisfaction or discharge of any lien, claim, or encumbrance or payment of any obligation by the Company or any Subsidiary, except in the ordinary course of business and that is not material to the business, properties, prospects, or financial condition of the Company or any Subsidiary (as such business is presently conducted and as it is proposed to be conducted);

(e) any material change to a contract or arrangement by or to which the Company or any Subsidiary or any of its respective assets is bound or subject;

(f) any change in any compensation arrangement or agreement with any employee, officer, director or stockholder;

(g) any sale, assignment, or transfer of any interest in any patents, trademarks, copyrights, or trade secrets;

(h) any resignation or termination of employment of any key officer of the Company or any Subsidiary; and neither the Company nor any Subsidiary knows of the impending resignation or termination of employment of any such officer;

(i) receipt of notice that there has been a loss of, or material order cancellation by, any major customer of the Company or any Subsidiary;

(j) any mortgage, pledge, transfer of a security interest in, or creation of a lien by the Company or any Subsidiary with respect to any of its properties or assets, except liens for taxes not yet due or payable;

(k) any loans or guarantees made by the Company or any Subsidiary to or for the benefit of its respective employees, officers, or directors, or any members of their immediate families, other than travel advances and other similar advances made in the ordinary course of its respective business;

(l) any declaration, setting aside, or payment or other distribution in respect of any of the capital stock of the Company or any Subsidiary, or any direct or indirect redemption, purchase, or other acquisition of any of such stock by the Company or any Subsidiary;

(m) to the knowledge of the Company or the Subsidiaries, any other event or condition of any character that might materially and adversely affect the respective business, properties, prospects, or financial condition of the Company or the Subsidiaries (as such business is presently conducted and as it is proposed to be conducted); or

(n) any agreement or commitment by the Company or any Subsidiary to do any of the things described in this paragraph 2.18.

2.19 INTELLECTUAL PROPERTY RIGHTS. The Company and each Subsidiary

owns or possesses all rights, title and interest in all patents, trademarks, service marks, trade names, and any applications or registrations therefor, both foreign and domestic, copyrights, trade secrets, information, and proprietary rights and processes, (collectively, "Intellectual Property Rights") and owns or possesses sufficient rights, title, and interest in all licenses necessary for its business as now conducted and as proposed to be conducted without any conflict with, or infringement of the rights of, others. To the Company's knowledge, all Intellectual Property Rights are valid and enforceable. The Schedule of Exceptions contains a complete list of patents and pending patent applications of the Company. Except for agreements with its own respective employees or consultants, substantially in the form referenced in paragraph 2.22 below, and standard end-user license agreements, there are no outstanding options, licenses, or agreements of any kind relating to the foregoing, nor is the Company or any Subsidiary bound by or a party to any options, licenses, or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information, and proprietary rights and processes of any other person or entity which options, licenses or agreements are material to the Company or any Subsidiary or its respective business as now conducted and as proposed to be conducted. The Company and each Subsidiary has taken all reasonable and appropriate steps, including without limitation the filing and prosecution of patent, copyright, and trademark applications to perfect and protect its interest in the Intellectual Property Rights in all countries in which the Company and each Subsidiary conducts business or proposes to conduct business; and the Company and each Subsidiary has the exclusive right to file, prosecute and maintain such applications and the patents and registrations that issue therefrom. The Company and each Subsidiary has taken appropriate steps to protect and preserve the confidentiality of all inventions, algorithms, formulas, schematics, technical drawings, ideas, know-how, processes not otherwise protected by patents or patent applications, source code, program listings, and trade secrets ("Confidential Information"), including without limitation the marking of all such Confidential Information with appropriate "Proprietary" or "Confidential" legends and the acquisition of duly executed nondisclosure agreements from any party receiving Confidential Information. To the Company's knowledge, no person has used, divulged or appropriated Confidential Information to the detriment of the Company or any Subsidiary other than pursuant to the terms of written agreements between the Company or any Subsidiary and such other

persons. Neither the Company nor any Subsidiary has received any communication challenging the ownership, validity, or enforceability of the Intellectual Property Rights or alleging that the Company or any Subsidiary has violated or, by conducting its respective business as proposed, would violate any of the patents, trademarks, service marks, trade names, copyrights, trade secrets, or other proprietary rights or processes of any other person or entity and to the knowledge of the Company and the Subsidiaries without further investigation, neither the Company nor any Subsidiary is in such violation. Neither the Company nor any Subsidiary is aware of any unauthorized use, infringement or misappropriation of any of the Intellectual Property Rights by any third party, including without limitation, any respective employee or consultant of the Company or any Subsidiary. Neither the Company nor any Subsidiary has brought any actions or lawsuits alleging infringement of any Intellectual Property Rights or breach of any license, sublicense or other agreement authorizing another party to use the Intellectual Property Rights. Neither the Company nor any Subsidiary has entered into any agreement granting any third party the right to bring infringement actions with respect to, or otherwise to enforce rights with respect to, any Intellectual Property Right. Neither the Company nor any Subsidiary is aware that any of the respective employees of the Company or any Subsidiary is obligated under any contract (including licenses, covenants, or commitments of any nature) or other agreement, or subject to any judgment, decree, or order of any court or administrative agency, that would interfere with the use of such employee's best efforts to promote the interests of the Company or any Subsidiary or that would conflict with the business of the Company or any Subsidiary as proposed to be conducted. No Intellectual Property Right is subject to any outstanding order, judgment, decree, stipulation, agreement, lien, encumbrance or security interest related to or restricting in any manner the licensing, assignment, transfer or conveyance thereof by the Company or any Subsidiary. The Company and each Subsidiary has secured valid written assignments from all respective consultants and employees who contributed to the creation or development of Intellectual Property Rights or the rights to such contributions that the Company or any Subsidiary does not already own by operation of law. Neither the execution nor delivery of this Agreement, nor the carrying on of the Company's or any Subsidiary's business by the respective employees of the Company or any Subsidiary, nor the conduct of the Company's or any Subsidiary's business as proposed, will, to the knowledge of the Company or any Subsidiary, conflict with or result in a breach of the terms, conditions, or provisions of, or constitute a default under, any contract, covenant, or instrument under which any of such employees is now obligated. Neither the Company nor any Subsidiary believes it is or will be necessary to use any inventions of any of its respective employees (or persons it currently

intends to hire) made prior to their employment by the Company or any Subsidiary.

2.20 MANUFACTURING AND MARKETING RIGHTS. Neither the Company nor any Subsidiary has granted rights to manufacture, produce, assemble, license, market, or sell its respective products to any other person and is not bound by any agreement that affects the exclusive right of the Company or any Subsidiary to develop, manufacture, assemble, distribute, market, or sell its respective products.

2.21 EMPLOYEES; EMPLOYEE COMPENSATION. To the best of the knowledge of the Company and any Subsidiary, there is no strike, or labor dispute or union organization activities

pending or threatened between it and its respective employees. To the best knowledge of the Company and any Subsidiary, none of its employees belongs to any union or collective bargaining unit. To the best of the knowledge of the Company and any Subsidiary, it has complied in all material respects with all applicable state and federal equal employment opportunity and other laws related to employment. To the best knowledge of the Company and any Subsidiary, no employee of the Company or any Subsidiary is or will be in violation of any judgment, decree, or order, or any term of any employment contract, patent disclosure agreement, or other contract or agreement relating to the relationship of such employee with the Company or any Subsidiary, or any other party, because of the nature of the business conducted or to be conducted by the Company or to the use by the employee of his best efforts with respect to such business. Neither the Company nor any Subsidiary is a party to or bound by any currently effective employment contract, deferred compensation agreement, bonus plan, incentive plan, profit sharing plan, retirement agreement, or other employee compensation agreement other than with respect to agreements regarding Options, as defined in Section 2.5(iv) above, including the 1997 and 1998 Stock Option Plans (collectively with all Options, "Stock Option Plans"), and options granted thereunder. Neither the Company nor any Subsidiary is aware that any respective officer or key employee, or that any group of key employees, intends to terminate their employment with the Company or any Subsidiary, nor does the Company or any Subsidiary have a present intention to terminate the employment of any of the foregoing. Subject to general principles related to wrongful termination of employees, the employment of each officer and employee of the Company or any Subsidiary is terminable at the will of the Company or any Subsidiary.

2.22 PROPRIETARY INFORMATION AND INVENTIONS AGREEMENTS. Each employee and officer of the Company and each Subsidiary has executed a Proprietary Information and Inventions Agreement substantially in the form or forms which have been delivered to the Investors.

2.23 TAX RETURNS, PAYMENTS, AND ELECTIONS. The Company and each Subsidiary has filed all tax returns and reports as required by law. These returns and reports are true and correct in all material respects. The Company and each Subsidiary has paid all taxes and other assessments due, except those contested by it in good faith. The provision for taxes of the Company as shown in the Financial Statements is adequate for taxes due or accrued as of the date thereof. The Company has not elected pursuant to the Internal Revenue Code of 1986, as amended ("Code"), to be treated as an S corporation or a collapsible corporation pursuant to Section 1362(a) or Section 341(o) of the Code, nor has it made any other election pursuant to the Code (other than elections that relate solely to methods of accounting, depreciation, or amortization) that would have a material effect on the business, properties, prospects, or financial condition of the Company. Neither the Company nor any Subsidiary has had any tax deficiency proposed or assessed against it and neither the Company nor any Subsidiary has executed any waiver of any statute of limitations on the assessment or collection of any tax or governmental charge. None of the Company's or any Subsidiary's federal income tax returns and none of its respective state income or franchise tax or sales or use tax returns has ever been audited by governmental authorities. Since the date of the Financial Statements, the Company and each

Subsidiary has made adequate provisions on its respective books of account for all taxes, assessments, and governmental charges with respect to its respective business, properties, and operations for such period. The Company and each Subsidiary has withheld or collected from each payment made to each of its respective employees the amount of all taxes, including, but not limited to, federal income taxes, Federal Insurance Contribution Act taxes and Federal Unemployment Tax Act taxes required to be withheld or collected therefrom, and has paid the same to the proper tax receiving officers or authorized depositories.

2.24 ENVIRONMENTAL AND SAFETY LAWS.

(a) All of the real estate owned, leased, subleased, or used by the Company and the Subsidiaries (collectively, the "Real Estate") is free of contamination from any Hazardous Material except for such contamination that would not result in Environmental Liabilities that could reasonably be expected to have a material adverse effect on the Company or the Investors; (ii) neither the Company nor any Subsidiary has caused or suffered to occur any Release of Hazardous Materials on, at, in, under, above, to, from or about any of its Real Estate; (iii) the Company and the Subsidiaries are and have been in compliance with all Environmental Laws; (iv) the Company and the Subsidiaries have obtained, and are in compliance with, all Environmental Permits required by Environmental Laws for the operations of their respective businesses as presently conducted or as proposed to be conducted, and all such Environmental Permits are valid, uncontested and in good standing; (v) neither the Company nor any Subsidiary is involved in operations or knows of any facts, circumstances or conditions, including any Releases of Hazardous Materials, that are likely to result in any Environmental Liabilities of the Company or any Subsidiary that could reasonably be expected to have a material adverse effect on the Company or the Investors; (vi) no notice has been received by the Company or any Subsidiary identifying it as a "potentially responsible party" or requesting information under any Environmental Law, and to the knowledge of the Company and the Subsidiaries, there are no facts, circumstances or conditions that may result in the Company or any Subsidiary being identified as a "potentially responsible party" under CERCLA or analogous state statutes; and (vii) the Company and its Subsidiaries have provided to Investors copies of all existing environmental reports, reviews and audits and all written information pertaining to actual or potential Environmental Liabilities, in each case relating to the Company and the Subsidiaries.

(b) The following capitalized terms have the definitions ascribed to them below:

"Hazardous Material" means any substance, material or waste that is regulated by, or forms the basis of liability now or hereafter under, any Environmental Laws, including any material or substance that is (a) defined as a "solid waste," "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste," "restricted hazardous waste," "pollutant," "contaminant," "hazardous constituent," "special waste," "toxic substance" or other similar term or phrase under any Environmental Laws, (b) petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls (PCB's), or any radioactive substance. "Environmental Laws" means all applicable federal, state, local and foreign laws, statutes, ordinances, codes, rules, standards and regulations, now or hereafter in effect, and any applicable

judicial or administrative interpretation thereof, including any applicable judicial or administrative order, consent decree, order or judgment, imposing liability or standards of conduct for or relating to the regulation and protection of human health, safety, the environment and natural resources (including ambient air, surface water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation).

"Environmental Laws" includes the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. Sections 9601 et seq.) ("CERCLA"); the Hazardous Materials Transportation Authorization Act of 1994 (49 U.S.C. Sections 5101 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C. Sections 136 et seq.); the Solid Waste Disposal Act (42 U.S.C. Sections 6901 et seq.); the Toxic Substance Control Act (15 U.S.C. Sections 2601 et seq.); the Clean Air Act (42 U.S.C. Sections 7401 et seq.); the Federal Water Pollution Control Act (33 U.S.C. Sections 1251 et seq.); the Occupational Safety and Health Act (29 U.S.C. Sections 651 et seq.); and the Safe Drinking Water Act (42 U.S.C. Sections 300(f) et seq.), and any and all regulations promulgated thereunder, and all analogous state, local and foreign counterparts or equivalents and any transfer of ownership notification or approval statutes.

"Environmental Liabilities" means, with respect to the Company and each of the Subsidiaries, all liabilities, obligations, responsibilities, response, remedial and removal costs, investigation and feasibility study costs, capital costs, operation and maintenance costs, losses, damages, punitive damages, property damages, natural resource damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts and consultants), fines, penalties, sanctions and interest incurred as a result of or related to any claim, suit, action, investigation, proceeding or demand by any person, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law, including any arising under or related to any Environmental Laws, Environmental Permits, or in connection with any Release or threatened Release or presence of a Hazardous Material whether on, at, in, under, from or about or in the vicinity of any real or personal property.

"Environmental Permits" means all permits, licenses, authorizations, certificates, approvals or registrations required by any governmental authority under any Environmental Laws.

"Release" means any release, threatened release, spill, emission, leaking, pumping, pouring, emitting, emptying, escape, injection, deposit, disposal, discharge, dispersal, dumping, leaching or migration of Hazardous Material in the indoor or outdoor environment, including the movement of Hazardous Material through or in the air, soil, surface water, ground water or property.

2.25 SECTION 83(b) ELECTIONS. To the best of the Company's knowledge, all individuals who have purchased shares of the Company's Common Stock have timely filed elections under Section 83(b) of the Internal Revenue Code and any analogous provisions of applicable state tax laws.

2.26 MINUTE BOOKS. The minute books of the Company and each Subsidiary made available to Investors contain a complete summary of all meetings of directors and stockholders since its respective incorporation and reflect all transactions referred to in such minutes accurately in all material respects.

2.27 REAL PROPERTY HOLDING COMPANY. Neither the Company nor any Subsidiary is a real property holding company within the meaning of Internal Revenue Code Section 897.

2.28 INSURANCE. The Company and its Subsidiaries maintain in full force and effect insurance in such amounts and against such losses and risks as is sufficient and reasonable given the nature of their respective businesses. There are currently no claims pending under any insurance policies of the Company and its Subsidiaries, and all premiums due and payable with respect to the policies maintained by the Company and its Subsidiaries have been paid to date.

2.29 ERISA.

(a) Section 2.29 of the Schedule of Exceptions lists all material employee benefit plans (as defined in Section 3(3) of ERISA) and all material bonus, stock option, stock purchase, incentive, deferred compensation, supplemental retirement, severance and other similar fringe or employee benefit plans, programs or arrangements maintained or contributed to by the Company or any Subsidiaries for the benefit of or relating to any employee of the Company, or any Subsidiaries (together the "Benefit Plans"). The Company has made available to each Investor a copy of the documents and instruments governing each such Benefit Plan. No event has occurred and, to the knowledge of the Company, there currently exists no condition or set of circumstances in connection with which the Company or any Subsidiaries would be subject to any material liability (other than for routine benefit liabilities) under the terms of any Benefit Plans, ERISA, the Code or any other applicable law, including, without limitation, any liability under Title IV of ERISA. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(b) There will be no material payment, accrual of additional benefits, acceleration of payments or vesting in any benefit under any Benefit Plan solely by reason of entering into or in connection with the transactions contemplated by this Agreement.

(c) No Benefit Plan that is a welfare benefit plan within the meaning of Section 3(1) of ERISA (other than a plan covering only one individual employee or former employee and his or her dependents) provides material benefits to former employees of the Company or its ERISA Affiliates other than pursuant to Section 4980B of the Code.

2.30 CO-SALE AGREEMENT. The Amended and Restated Co-Sale Agreement dated November 10, 2000, as amended from time to time, by and among the Company and the parties thereto (the "Co-Sale Agreement") has lapsed by its own terms pursuant to Section 3(b) as each Founder (as defined in the Co-Sale Agreement) holds less than 5% of the Company's outstanding shares.

3. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS.

Each Investor hereby represents warrants, covenants and agrees that:

3.1 AUTHORIZATION. Such Investor has full power and authority to enter into this Agreement and that this Agreement constitutes a valid and legally binding obligation of such Investor.

3.2 PURCHASE ENTIRELY FOR OWN ACCOUNT. This Agreement is made with each Investor in reliance upon such Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Series F Preferred Stock or the Common Stock issuable upon conversion thereof (collectively, the "Securities") will be acquired for investment for such Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, distribute or grant participation to such person, or to any third person, with respect to any of the Securities.

3.3 RELIANCE UPON INVESTORS' REPRESENTATIONS. Each Investor understands that the issuance of the Securities may not be registered under the Securities Act on the ground that the sale provided for in this Agreement and the issuance of the Securities hereunder is exempt from registration under the Securities Act pursuant to Section 4(2) thereof and that the Company's reliance on such exemption is predicated on the Investors' representations set forth herein.

3.4 RECEIPT OF INFORMATION. Each Investor believes such Investor has received all the information such Investor considers necessary for deciding whether to purchase the Series F Preferred Stock to be issued to it. Each Investor further represents that such Investor has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Series F Preferred Stock, and the business, properties, prospects, and financial condition of the Company and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify the accuracy of any information furnished to such Investor or to which such Investor had access. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Investors to rely thereon.

3.5 INVESTMENT EXPERIENCE. Each Investor represents that such Investor is experienced in evaluating and investing in securities of companies in the development state and acknowledges that such Investor is able to fend for himself, herself or itself, can bear the economic risk of such Investor's investment, and has such knowledge and experience in financial and business matters that such Investor is capable of evaluating the merits and risks of the investment in the Series F Preferred Stock. If other than an individual, Investor also represents such Investor has not been organized for the purpose of acquiring the Series F Preferred Stock,

or if such Investor has been organized for the purpose of acquiring the Series F Preferred Stock that all investors in such fund are accredited.

3.6 ACCREDITED INVESTOR. Except as otherwise disclosed to the Company in writing, Investor either is (a) an accredited investor as defined in Rule 501(a) of Regulation D of the SEC under the Securities Act, or (b) neither (x) a national or resident of the United States, its territories, possessions or any area subject to its jurisdiction, nor (y) a corporation, partnership, trust or other entity created or organized in the United States, its territories, possessions or any area subject to its jurisdiction, nor (z) a corporation, partnership, trust or other entity, any of the equity owners of which is described in clause (x) or (y) above and agrees not to sell, hypothecate, pledge or otherwise dispose of any interest in the Securities in the United States, its territories, possessions or any area subject to its jurisdiction, or to any person who is a national thereof or resident therein (including any estate of such person), or any corporation, partnership or other entity created or organized therein, unless such securities have been either registered under the Securities Act, or are exempt from the registration requirements of the Securities Act, in the opinion of the Company's counsel, and Investor has complied with any restrictions on transfer contained in this Agreement.

3.7 RESTRICTED SECURITIES. Each Investor understands that the Series F Preferred Stock (and any Common Stock issued on conversion thereof) may not be sold, transferred, or otherwise disposed of without registration under the Securities Act or an exemption therefrom, and that in the absence of an effective registration statement covering the Preferred Stock or Common Stock issued on conversion thereof or an available exemption from registration under the Securities Act, the Series F Preferred Stock (and any Common Stock issued on conversion thereof) must be held indefinitely. In particular, each Investor is aware that the Series F Preferred Stock (and any Common Stock issued on conversion thereof) may not be sold pursuant to Rule 144 promulgated under the Securities Act unless all of the conditions of that Rule are met. Among the conditions for use of Rule 144 may be the availability of current information to the public about the Company. Such

information is not now available, and the Company has no present plans to make such information available.

3.8 CONFIDENTIALITY. Except for GE Capital Equity Investments, Inc. who shall be bound by the confidentiality provisions in that certain letter agreement between the Company and GE Capital Equity Investments, Inc. dated of even date herewith, each Investor hereby represents, warrants and covenants that it shall maintain in confidence, and shall not use or disclose without the prior written consent of the Company, any information identified as confidential that is furnished to it by the Company in connection with this Agreement, including (without limitation) all financial statements, budget and other information delivered or provided to such Investor. This obligation of confidentiality shall not apply, however, to any information (i) in the public domain through no unauthorized act or failure to act by Investor, (ii) lawfully disclosed to Investor by a third party who possessed such information without any obligation of confidentiality, (iii) known previously by Investor or lawfully developed by Investor independent of any disclosure by the Company or (iv) required to be disclosed by law. Each Investor (other

than GE Capital Equity Investments, Inc.) further covenants that such Investor shall return to the Company all tangible materials containing such information upon request by the Company.

3.9 FURTHER LIMITATIONS ON DISPOSITION. Without in any way limiting the representations set forth above, each Investor further agrees not to make any disposition of all or any portion of the Preferred Stock or Common Stock issued on conversion thereof without the consent of the Company, unless and until the transferee has agreed in writing for the benefit of the Company to be bound by this Section 3 and the Investors' Rights Agreement, provided and to the extent that such sections are applicable, and:

(a) There is then in effect a Registration Statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) The Investor shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition and, if reasonably requested by the Company, the Investor shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Securities Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144, as currently in existence, except in unusual circumstances.

(c) Notwithstanding the provisions of subsections (a) and (b) above, no such registration statement or opinion of counsel or consent of the Company shall be necessary for a transfer by an Investor to an affiliated entity which controls, is controlled by, or under common control with, the Investor, provided that the transferee agrees in writing for the benefit of the Company to be bound by this Section 3 and the Investors' Rights Agreement.

4. CONDITIONS OF INVESTORS' OBLIGATIONS AT THE CLOSING.

The obligations of each Investor under subparagraph 1.1(b) of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions:

4.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Company contained in Section 2 shall be true on and as of the Closing.

4.2 PERFORMANCE. The Company shall have performed and complied with all agreements, obligations, and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

4.3 COMPLIANCE CERTIFICATE. The President of the Company shall deliver to each Investor at the Closing a certificate certifying that the conditions specified in paragraphs 4.1 and 4.2 have been fulfilled.

4.4 OPINION OF COMPANY COUNSEL. Each Investor shall have received from Brobeck, Phleger & Harrison LLP, counsel for the Company, an opinion, dated as of the Closing, substantially in the form attached hereto as EXHIBIT D.

4.5 INVESTORS' RIGHTS AGREEMENT. The Company and each Investor shall have entered into the Amended and Restated Investors' Rights Agreement, the form of which is attached hereto as EXHIBIT C.

4.6 STATE SECURITIES LAWS. The Company shall have obtained all necessary state securities law permits and qualifications, or have the availability of exemptions therefrom, required by any state for the offer and sale of the Series F Preferred Stock and the Common Stock issuable upon conversion of the Series F Preferred Stock.

4.7 RESTATED CERTIFICATE. The Restated Certificate shall have been filed with the Delaware Secretary of State.

5. CONDITIONS OF THE COMPANY'S OBLIGATIONS AT CLOSING.

The obligations of the Company to each Investor under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions by that Investor:

5.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of each Investor contained in Section 3 hereof shall be true on and as of the Closing.

5.2 STATE SECURITIES LAWS. The Company shall have obtained all necessary state securities law permits and qualifications, or have the availability of exemptions therefrom, required by any state for the offer and sale of the Series F Preferred Stock and the Common Stock issuable upon conversion of the Series F Preferred Stock.

5.3 PAYMENT OF PURCHASE PRICE. Each Investor shall have delivered the purchase price specified in Section 1.1.

5.4 RESTATED CERTIFICATE. The Restated Certificate shall have been filed with the Delaware Secretary of State.

6. MISCELLANEOUS.

6.1 ENTIRE AGREEMENT. This Agreement, a letter agreement between the Company and GE Capital Equity Investments, Inc. dated of even date herewith and the documents referred to herein constitute the entire agreement among the parties hereto and no party shall be liable or bound to any other party in any manner by any warranties, representations, or covenants except as specifically set forth herein or therein.

6.2 SURVIVAL OF WARRANTIES. The warranties, representations, and covenants of the Company and the Investors contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing.

6.3 SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including permitted transferees of any Series F Preferred Stock or Common Stock issued upon conversion thereof or upon conversion of Series F Preferred Stock). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

6.4 GOVERNING LAW; JURY TRIAL WAIVER. This Agreement shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California. THE PARTIES HERETO IRREVOCABLY WAIVE ALL RIGHTS TO A TRIAL BY JURY IN ANY SUIT, ACTION OR OTHER PROCEEDING INSTITUTED BY OR AGAINST THE PARTY IN RESPECT OF ITS OBLIGATIONS HEREUNDER OR THE TRANSACTIONS CONTEMPLATED HEREBY.

6.5 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.6 TITLES AND SUBTITLES. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

6.7 NOTICES. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified (or upon the date of attempted delivery where delivery is refused) or, if sent by telecopier, telex, telegram, or other facsimile means, upon receipt of appropriate confirmation of receipt, or upon deposit with the United States Postal Service, by registered or certified mail, or next day air courier, with postage and fees prepaid and addressed to the party entitled to such notice at the address indicated for such party on the signature page hereof, or at such other address as such party may designate by 10 days' advance

written notice to the other parties to this Agreement.

6.8 FINDER'S FEES. Each party represents that it neither is nor will be obligated for any finder's fee or commission in connection with this transaction. Each Investor agrees to indemnify and to hold harmless the Company from any liability for and commission or compensation in the nature of a finder's fee (and the cost and expenses of defending against such liability or asserted liability) for which the Investor or any of its officers, partners, employees, or representatives is responsible.

The Company agrees to indemnify and hold harmless each Investor from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees, or representatives is responsible.

6.9 EXPENSES. Irrespective of whether the Closing is effected, each party shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery, and performance of this Agreement; provided, however, that if the Closing is effected, the Company shall reimburse GE Capital Equity Investments, Inc. for up to Fifteen Thousand Dollars ($15,000) in expenses incurred in connection with the transactions contemplated by this Agreement, including attorneys' fees and expenses.

6.10 ATTORNEYS' FEES. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the Investors' Rights Agreement or any other agreement contemplated hereby, the prevailing party shall be entitled to reasonable attorneys' fees, costs, and disbursements in addition to any other relief to which such party may be entitled.

6.11 AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Common Stock not previously sold to the public that is issued or issuable upon conversion of the Series F Preferred Stock purchased pursuant to this Agreement. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities have been converted), each future holder of all such securities, and the Company.

6.12 SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

6.13 EXCULPATION AMONG INVESTORS. Each Investor acknowledges that it is not relying upon any person, firm, or corporation, other than the Company and its officers and directors, in making its investment or decision to invest in the Company. Each Investor agrees that no Investor nor the respective controlling persons, officers, directors, partners, agents, or employees of any Investor shall be liable for any action heretofore or hereafter taken or omitted to be taken by any of them in connection with the Series F Preferred Stock or Common Stock issued upon conversion thereof.

6.14 PUBLICITY. No party hereto shall originate any publicity, news release, or other disclosure or announcement, written or oral (a "Press Release"), relating to this Agreement, or to performance hereunder or the existence of an arrangement between the parties hereto without the prior written approval of each other party hereto, except where such Press Release is required by applicable law; provided that in such event the party intending to issue the Press Release shall consult with the other party or parties with respect to the text thereof and such other party or parties shall be provided with a copy of the Press Release prior to its release.

6.15 INDEMNIFICATION.

(a) The Company shall indemnify each Investor and its respective directors, officers, employees and affiliates from and against any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, attorneys' fees, expenses and disbursements of any kind ("Losses") which may be imposed upon, incurred by or asserted against such Investor or any other indemnified party, relating to or arising out of any untrue representation, breach of warranty or failure to perform any covenants

or agreement by the Company contained herein or in any certificate or document delivered pursuant hereto (including, without limitation, the Investors' Rights Agreement).

(b) The Company shall indemnify each Investor and its respective directors, officers, employees and affiliates from and against any Losses resulting from or related to any claims by third parties relating to or arising out of the transactions contemplated hereby (including, without limitation, the Investors' Rights Agreement).

(c) If any Investor shall believe that such Investor is entitled to indemnification pursuant to this Section 6.15 in respect of any Losses, such Investor shall give the Company prompt written notice thereof. Any such notice shall set forth in reasonable detail and to the extent then known the basis for such claim for indemnification. The failure of such Investor to give notice of any claim for indemnification promptly shall not adversely affect such Investor's right to indemnity hereunder except to the extent that such failure materially adversely affects the right of the Company to assert any reasonable defense to such claim. Each such claim for indemnity shall expressly state that the Company shall have only the ten (10) day period referred to in the next sentence to dispute or deny such claim. The Company shall have ten (10) days following its receipt of such notice either (y) to acquiesce in such claim and its respective responsibilities to indemnify the Investor in respect thereof in accordance with the terms of this Section 6.15 by giving such Investor written notice of such acquiescence or (z) to object to the claim by giving such Investor written notice of the objection. If the Company does not object thereto within such ten (10) day period, the Company shall be deemed to have acquiesced in such claim and its responsibility to indemnify the Investor in respect thereof in accordance with the terms of this Section 6.15.

(d) The Company shall reimburse the Investors for any attorneys' fees and expenses constituting Losses pursuant to this Section 6.15 promptly and in no event later than fifteen (15) days following receipt of a written invoice therefor.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY: DIGIRAD CORPORATION,
a Delaware corporation

By: /s/ Scott Huennekens

Scott Huennekens, President

INVESTORS: KINGSBURY CAPITAL PARTNERS, L.P., III

By: Kingsbury Associates, L.P.,
Its General Partner

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

KINGSBURY CAPITAL PARTNERS, L.P., IV

By: Kingsbury Associates, L.P.,
Its General Partner

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

SORRENTO VENTURES III, L.P.

By: /s/ Robert M. Jaffe

Robert M. Jaffe
President, Sorrento Associates, Inc.
General Partner, Sorrento Equity Partners III, L.P.
General Partner, Sorrento Ventures III, L.P.

SORRENTO VENTURES CE, L.P.

By: /s/ Robert M. Jaffe

Robert M. Jaffe
President, Sorrento Associates, Inc.
General Partner, Sorrento Equity Partners III, L.P.
General Partner, Sorrento Ventures CE, L.P.

Address: 4370 La Jolla Village Drive, Suite 1040
San Diego, CA 92122

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

VECTOR LATER-STAGE EQUITY FUND II (QP), L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: /s/ Doug Reed

Doug Reed
Managing Director

VECTOR LATER-STAGE EQUITY FUND II, L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: /s/ Doug Reed

Doug Reed
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

ANACAPA INVESTORS, LLC -
ANACAPA I

By: /s/ Robert Raede

Robert Raede
Manager

Address: 32 W. Anapamu Street, #350
Santa Barbara, CA 93101

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

MERRILL LYNCH VENTURES, L.P. 2001

By: Merrill Lynch Ventures LLC
Its General Partner

By: /s/ Edward J. Higgins

Edward J. Higgins
Vice President

Address: 2 World Financial Center, 31st Floor
New York, NY 10281
Attn: Jean Kim

All Notices: Merrill Lynch Ventures, L.P. 2001
Attn: Robert F. Tully
95 Greene Street
Jersey City, NJ 07302-3815

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

INGLEWOOD VENTURES, L.P.

By: /s/ Daniel C. Wood

Daniel C. Wood

Title: Member

Address: 12526 High Bluff Drive, Suite 300
San Diego, CA 92130

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

KENNETH E. OLSON TRUST DATED 3/16/89

By: K. Olson

Name: Trustee

Title:

Address: 404 Torrey Point Road
Del Mar, CA 92014

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

D. THEODORE BERGHORST

/s/ D. Theodore Berghorst

Signature

Address: 12 Kent Road
Winnetca, IL 60093

BERGHORST 1998 DYNASTIC TRUST

By: /s/ D. Theodore Berghorst

D. Theodore Berghorst as Financial Advisor

Address: 12 Kent Road
Winnetca, IL 60093

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

PETER F. DRAKE

/s/ Peter F. Drake

Signature

Address: 255 Mayflower Road
Lake Forest, IL 60045

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

PALIVACINNI PARTNERS, LP

By: /s/ Doug Reed

Doug Reed
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

MID-CAROLINA CARDIOLOGY, PA

By: /s/ Stephen A. McAdams

Stephen A. McAdams, M.D.
Chief Executive Officer

Address: 1718 East Fourth Street, Suite 501
Charlotte, NC 28204

STEPHEN A. MCADAMS AND LOU ANN MCADAMS

/s/ Stephen A. McAdams

Stephen A. McAdams

/s/ Lou Ann McAdams

Lou Ann McAdams

Address: 1718 East Fourth Street, Suite 501
Charlotte, NC 28204

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

IMPERIAL VENTURES, INC.

By: /s/ James B. Rutter

James B. Rutter
President

Address: 11512 El Camino Real, Suite 350
San Diego, CA 92130

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

STEPHEN A. MCADAMS ROLLOVER IRA

By: /s/ Stephen A. McAdams

Stephen A. McAdams

Address: 1718 East Fourth Street, Suite 501
Charlotte, NC 28204

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

W. AUGUST HILLENBRAND

/s/ W. August Hillenbrand

Signature

Address: 700 S.R. 46E
Batesville, IN 47006

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

TAH & H INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

KKH & C INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

WAH & M INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

Address: 5 Observatory Hill
Cincinnati, OH 45208

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

MLH & T INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

RDH & S INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

Address: 5 Observatory Hill
Cincinnati, OH 45208

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

GE CAPITAL EQUITY INVESTMENTS, INC.

By: /s/ David Gibbs

David Gibbs
Senior Vice President

Address: 120 Long Ridge Road
Stamford, CT 06927

[SIGNATURE PAGE TO SERIES F STOCK PURCHASE AGREEMENT]

SCHEDULE 1

SCHEDULE OF INVESTORS

CLOSING - AUGUST 23, 2001

INVESTOR	SHARES TO BE PURCHASED	PURCHASE PRICE
Kingsbury Capital Partners, L.P., III	55,385	$180,001.25
Kingsbury Capital Partners, L.P., IV	129,231	$420,000.75
Sorrento Ventures III, L.P.	63,900	$207,675.00
Sorrento Ventures CE, L.P.	13,023	$42,324.75
Vector		

Later-Stage Equity Fund II, L.P. 38,462 $125,001.50
Vector Later-Stage Equity Fund II (QP), L.P. 115,385 $375,001.25
Palivacinni Partners, LP 20,000 $65,000.00
Kenneth E. Olson Trust 30,769 $99,999.25
Anacapa Investors, LLC - Anacapa I 76,923 $249,999.75
Imperial Ventures, Inc. 153,846 $499,999.50
Merrill Lynch Ventures, LP 2001 107,692 $349,999.00
Inglewood Ventures, LP 76,923 $249,999.75
D. Theodore Berghorst 113,846 $369,999.00
Berghorst 1998 Dynastic Trust 113,846 $369,999.50
Peter F. Drake 76,923 $249,999.75
Mid-Carolina Cardiology, PA 52,308 $170,001.00
Stephen A. and Lou Ann McAdams 41,538 $134,998.50
Stephen A. McAdams Rollover IRA 76,923 $249,999.75
W. August Hillenbrand 184,615 $599,998.75
TAH & H Investors, LP 30,769 $99,999.25
KKH & C Investors, LP 30,769 $99,999.25
WAH & M Investors, LP 30,769 $99,999.25
MLH & T Investors, LP 30,769 $99,999.25
RDH & S

Investors, LP	30,770	$100,002.50
GE Capital Equity Investments, Inc.	923,077	$3,000,000.25
TOTALS	2,618,461	8,509,998.25

SCHEDULE 1

EXHIBIT A

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

Filed separately as an Exhibit to this Registration Statement

EXHIBIT B

SCHEDULE OF EXCEPTIONS

EXHIBIT B

SCHEDULE OF EXCEPTIONS

AUGUST 23, 2001

THIS SCHEDULE OF EXCEPTIONS IS MADE AND GIVEN WITH RESPECT TO SECTION 2 OF THE SERIES F PREFERRED STOCK PURCHASE AGREEMENT, DATED AS OF AUGUST 23, 2001, BY AND AMONG DIGIRAD CORPORATION, A DELAWARE CORPORATION (THE "COMPANY"), AND THE INVESTORS LISTED ON SCHEDULE 1 ATTACHED THERETO (THE "PURCHASE AGREEMENT"). ALTHOUGH THE SECTION NUMBERS SET FORTH BELOW CORRESPOND TO THE SECTION NUMBERS IN THE PURCHASE AGREEMENT, ANY INFORMATION DISCLOSED HEREIN UNDER ANY SECTION NUMBER SHALL BE DEEMED TO BE DISCLOSED AND INCORPORATED INTO ANY OTHER SECTION NUMBER UNDER THE PURCHASE AGREEMENT WHERE SUCH DISCLOSURES WOULD BE APPROPRIATE. WHERE THE TERMS OF A LEASE, CONTRACT OR OTHER DISCLOSURE ITEM HAVE BEEN SUMMARIZED OR DESCRIBED IN THIS SCHEDULE, SUCH SUMMARY OR DESCRIPTION DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE MATERIAL TERMS OF SUCH LEASE, CONTRACT OR OTHER ITEM. UNLESS THE CONTEXT OTHERWISE REQUIRES, ALL CAPITALIZED TERMS SHALL HAVE THE SAME MEANING AS DEFINED IN THE PURCHASE AGREEMENT. UNLESS OTHERWISE INDICATED BELOW, ALL REFERENCES TO THE CLOSING OR THE CLOSING DATE SHALL BE DEEMED TO REFER TO SUCH TERMS AS THEY ARE DEFINED IN THE PURCHASE AGREEMENT.

SECTION 2.5
CAPITALIZATION

(a) Pursuant to the terms of that certain Consulting Agreement by and between Digirad Imaging Systems, Inc. and Jeffrey Mandler dated September 29, 2000 (the "Mandler Consulting Agreement"), the Company may be obligated to issue up to 150,000 shares of its common stock. The Company may be obligated to issue a minimum of 100,000 of such 150,000 shares of its common stock to Jeffrey Mandler so long as Jeffrey Mandler does not breach either the non-competition provisions in the Mandler Consulting Agreement or that certain Non-Competition and Non-Disclosure Agreement by and between Jeffrey Mandler and DIS (hereinafter defined) dated as of September 29, 2000.

Pursuant to the terms of that certain Asset Purchase Agreement by and among the Company, Orion Imaging Systems, Inc., Florida Cardiology and Nuclear Medicine Group, P.A. and Dr. John Kilgore, dated August 31, 2000, as amended (the "Florida Cardiology Agreement"), the Company may be obligated to issue (a) up to 100,000 shares of its common stock in connection with the achievement by the Mobile Business (as defined in the Florida Cardiology Agreement) of certain net revenues by August 2001 and (b) additional shares of its stock based upon certain EBITDA revenues (the "Earn Out Payment"). The amount of the Earnout Payment shall be determined by the following formula:

"E = 3.5 (X - $900,000)

E = Earnout Payment amount in dollars

X = 2 times the Adjusted EBITDA actually achieved during the period (the "Earnout Period")commencing six (6) months after the Closing Date and ending on the first anniversary of the Closing Date (the "Earnout Determination Date").

Fifty percent (50%) of the amount of the Earnout Payment, when and if paid, shall be payable in cash and fifty percent (50%) of the amount of the Earnout Payment shall be payable

in shares of capital stock of Digirad (the "Earnout Shares"). The value of the Earnout Shares shall be the fair market value of such Earnout Shares on the Earnout Determination Date, as determined in good faith and in the sole discretion of the Board of Directors of Digirad. The Earnout Shares may consist of common stock of Digirad or preferred stock of Digirad, or any combination thereof, as determined in the sole discretion of the Board of Directors of Digirad."

Pursuant to terms of that certain Consulting Agreement with McAdams and Witham Consulting ("MWC") dated July 31, 2001 (the "MWC Agreement"), the Company is obligated to issue MWC (a) a warrant to purchase up to 100,000 shares of its common stock, currently exercisable for 40,000 shares of its common stock with subsequent vesting of 20,000 shares a year for the next three years, (b) a warrant to purchase 10,000 shares of its common stock for every three of its digital cameras sold by MWC up to a maximum of 100,000 shares, and thereafter (c) a warrant to purchase 1,500 shares of its common stock for each of its digital cameras sold by MWC.

SECTION 2.6
SUBSIDIARIES

Digirad Imaging Solutions, Inc, a Delaware corporation ("DIS"), is a wholly-owned subsidiary of the Company and Digirad Imaging Systems, Inc., a Delaware corporation, is a wholly-owned subsidiary of DIS.

SECTION 2.7
CONTRACTS AND OTHER COMMITMENTS

The Company has, from time to time, entered into the following Consulting Agreements:

Joel Raichlen Medical Director Agreement dated November 6, 2000.

Reference is made to the Mandler Consulting Agreement. See Section 2.5 above.

Makago Electronics, Inc. Project Consulting Agreement dated January 27, 1998.

Esther Saltz Consulting Agreement dated June 24, 1998.

Nadine Wang Project Consulting Agreement dated July 1, 1998.

Mel Davis Consulting Agreement dated July 20, 1998.

Michael Borton Consulting Agreement dated August 8, 1998.

Suzanne Farrand, CPA Consulting Agreement dated August 14, 1998.

Gilbert Pantoja Consulting Agreement dated August 14, 1998.

Chris Isaacson Mechanical Design Consulting Agreement dated June 19, 2000.

Frank J. Papatheofanis, MD, PhD Consulting Service Agreement dated March 4, 1999.

Ted Tillinghast Mechanical Design Consulting Agreement dated June 14, 1999.

C4S Consulting Agreement dated July 26, 1999.

Doyle & Associates Consulting Agreement dated September 13, 1999.

Charles Schmitz Consulting Agreement dated October 4, 1999.

Alex Shek Consulting Agreement dated December 3, 1999.

James Brunsch Consulting Agreement dated February 25, 2000.

Design & Development with Ogden Marsh & Associates dated February 18, 1998.

James Engelmann Consulting Agreement dated March 14, 2001.

Martin Shirley Independent Contractor Agreement dated July 8, 1999.

Gerald McMullen Consulting Agreement dated December 14, 2000 (executed in connection with the Florida Cardiology Agreement).

Reference is made to that certain Employment Agreement by and between Dr. John Kilgore and Digirad Imaging Systems, Inc. dated December 14, 2000 (the "Kilgore Employment Agreement") (executed in connection with the Florida Cardiology Agreement).

Reference is made to that certain Separation and General Release Agreement with Joyce Mehrberg dated May 11, 2001 (the "Mehrberg Separation Agreement").

Reference is made to the MWC Agreement. See Section 2.5 above.

Reference is made to that certain Asset Purchase Agreement by and among Digirad Imaging Systems, Inc., Nuclear Imaging Systems, Inc. and Cardiovascular Concepts, P.C. dated September 29, 2000 and its associated transaction documents (the "NIS Agreement").

Reference is made to the Florida Cardiology Agreement. See Section 2.5 above.

Reference is made to the Right of First Refusal in favor of the Company as set forth in Article VII of the Company's bylaws.

The Company has outstanding agreements involving amounts in excess of $100,000 with the following entities:

COMPANY	DESCRIPTION	AMOUNT
HILGER	***	$895,400
SEGAMI	***	Expect to pay $82,500 on a monthly basis, as units are installed in the field
MULTEK	***	$156,865
PHOTOPEAK	***	$848,436
QUIKSIL	***	$192,645
CROWN CIRCUITS	***	$140,406
KEARNY MESA FORD	***	$144,000
ABILITY CENTER	***	$105,701

The Company has from time to time entered into standard common stock purchase agreements and option agreements for common stock with its employees and directors (the "Common Stock Agreements"). Forms of the Common Stock Agreements are attached hereto as Exhibits A & B.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

The Company has entered into standard indemnification agreements with each of its directors (the "Indemnification Agreements"). A form of the Indemnification Agreements is attached hereto as Exhibit C.

The Company currently has outstanding warrant agreements for the purchase of shares of its common stock with the following individuals and/or entities:

Cardiovascular Consultants	10,000
Robert McKenzie	500
Stephan McAdams	30,000
John Witham	30,000
Oklahoma Cardiovascular Associates	20,000
Austin Heart	10,000

The Company currently has outstanding warrant agreements for the purchase of shares of its Series E Preferred Stock with the following entities:

MMC/GATX Ventures, Inc.	257,874
Priority Capital	36,839
Silicon Valley Bank	42,490
Kingsbury Capital Partners, L.P. III	9,881
Kingsbury Capital Partners, L.P. IV	23,057
Ocean Avenue Investors LLC - Anacapa Fund I / Anacapa Investors LLC - Anacapa Fund I	16,469
Vector Later-Stage Equity Fund II (QP), L.P.	12,351
Vector Later-Stage Equity Fund II, L.P.	4,117

Reference is made to that certain Amended and Restated Investors' Rights Agreement with the investors listed therein dated November 10, 2000, as amended (the "Investors' Rights Agreement").

Reference is made to that certain Amended and Restated Co-Sale Agreement with the investors listed therein dated November 10, 2000, as amended (the "Co-Sale Agreement").

Reference is made to that certain Amended and Restated Voting Agreement with investors listed therein dated August 8, 1997, as amended (the "Voting Agreement").

Reference is made to that certain Amended and Restated Series E Voting Agreement with the investors listed therein dated November 10, 2000, as amended (the "Series E Voting Agreement").

Reference is made to that certain Contract V797P6897a with Department of Veteran Affairs dated September 20, 2000.

Reference is made to that certain Service Agreement with Universal Servicetrends, Inc. dated August 25, 2000.

Reference is made to that certain Development and supply agreement with QuickSil, Inc. dated June 18, 1999 (the "Quicksil Agreement").

Reference is made to that certain Master Lease Agreement with GE Healthcare Financial Services dated September 26, 2000 (the "GE Healthcare Agreement").

Reference is made to that certain Irrevocable Standby Letter of Credit with Silicon Valley Bank for the benefit of GE Company dated December 21, 2000 in amount of $205,000.

Reference is made to that certain Equipment Lease with MarCap Corporation dated as of October 1, 2000 (the "MarCap Agreement").

Reference is made to that certain Master Equipment Lease with DVI Financial Services, Inc. dated as of May 24, 2001 (the "DVI Agreement").

Reference is made to that certain Loan and Security Agreement with Silicon Valley Bank dated as of April 1, 2000, as amended (the "First SVB Agreement").

Reference is made to that certain Loan and Security Agreement with Silicon Valley Bank dated as of July 31, 2001 (the "Second SVB Agreement").

Reference is made to that certain Loan and Security Agreement with

Heller Healthcare Finance dated January 9, 2001 (the "Heller Healthcare Agreement").

Reference is made to that certain Loan and Security Agreement with MMC/GATX Partnership No. I dated October 27, 1999 (the "MMC/GATX Agreement").

Reference is made to that certain First Amendment to Loan and Security Agreement with MMC/GATX Partnership No. I dated August 14, 2000 (the "First Amendment to MMC/GATX Agreement").

Reference is made to that certain Second Amendment to Loan and Security Agreement with MMC/GATX Partnership No. I dated November 27, 2000 (the "Second Amendment to MMC/GATX Agreement").

Reference is made to that certain Third Amendment to Loan and Security Agreement with MMC/GATX Partnership No. I dated May 2, 2001 (the "Third Amendment to MMC/GATX Agreement").

Reference is made to that certain Fourth Amendment to Loan and Security Agreement with MMC/GATX Partnership No. I effective as of July 31, 2001 (the "Fourth Amendment to MMC/GATX Agreement").

Reference is made to that certain Loan Agreement with Jack F. Butler in an aggregate amount of $245,000 dated September 1, 1993, as amended (the "Butler Loan").

Reference is made to that certain Loan Agreement with Clinton L. Lingren in an aggregate amount of $245,000 dated September 1, 1993, as amended (the "Lingren Loan").

Reference is made to that certain Loan Agreement with Gerald G. Loehr (as sole trustee of the Gerald G. Loehr Revocable Trust) in an aggregate amount of $245,000 dated September 1, 1993, as amended (the "Loehr Loan").

Reference is made to that certain License agreement for Detector with the Regents of the University of California through the Ernest Orlando Lawrence Berkeley National Laboratory dated May 19, 1999, as amended (the "Berkeley License").

Reference is made to that certain Termination Agreement with Ethicon Endo-Surgery, Inc. dated June 22, 1999 (the "Ethicon Agreement").

Reference is made to that certain Software License Agreement with Segami Corporation dated June 16, 1999 (the "Segami Agreement").

Reference is made to that certain License Agreement with Science Applications International Corporation dated April 7, 2000 (the "SAIC Agreement").

Reference is made to that certain Software Products License Agreement with Strategic Information Group, Inc. dated December 31, 1998 (the "SIG Agreement").

Reference is made to that certain Software License Agreement with Corporate Management Solutions, Inc. dated July 21, 1999 (the "CMS Agreement").

Reference is made to that certain Software License and Maintenance Agreement with Cadence Design Systems, Inc. dated November 16, 1999 (the "CDS Agreement").

Reference is made to that certain Software Products License Agreement with QAD, Inc. dated January 6, 1999 (the "QAD Agreement").

The Company has entered into Distribution and Supply Agreements with the following entities (the "D&S Agreements"):

CMS Imaging, Inc.
Performance Medical Group
ADN CanadaMitsui & Co.

Reference is made to that certain Lease for 9350 Trade Place, Suite A, San Diego, CA dated January 27, 1998 with Judd/King No. 1.

Reference is made to that certain Lease for 9333 Trade Place, San Diego, CA dated February 21, 2001 with John Stephan, Trustee.

Reference is made to that certain Lease for 7394 Trade Street, Suite B, San Diego, CA dated September 1, 1997 with Manohar Daryanani.

Reference is made to that certain Lease for 7408 Trade Street, San Diego, CA dated May 26, 1996 with Research Diversified.

Reference is made to that certain Lease for 7410 Trade Street, San Diego, CA dated August 1, 1997 with James and Ila Piel Family Trust.

Reference is made to that certain Lease for 7444 Trade Street, San Diego, CA dated January 10, 1997 with H.G. Fenton Company.

Reference is made to that certain Lease for 7414 Trade Street, Suite B, San Diego, CA dated August 13, 1997 with Janice Brightman.

Reference is made to that certain Lease for 7390 Trade Street, San Diego, CA dated May 1, 1997 with John and Diana Purcell.

Reference is made to that certain Lease for 7824B Causeway Blvd., Tampa, FL between Orion Imaging Systems and John and Jewell Talman dated December 21, 2000.

Reference is made to that certain Lease for 5 Laurel Drive, Unit 5, Flanders, NJ 07836 between Digirad Imaging Solutions and Richard and Virginia Lettorale dated March 29, 2001.

Reference is made to that certain Lease for 930 N. St., Ste. 210, Allentown, PA between Orion Imaging Systems and Fourth Street Development, LP dated February 21, 2001.

Reference is made to that certain Lease for 7404 Trade Street, San Diego, CA with H.G. Fenton Company dated August 6, 2001.

Reference is made to that certain Lease for 1811 Executive Drive, Indianapolis, IN with Dugan Realty, LLC dated June 25, 2001.

Reference is made to that certain Lease for 4700 Belle Grove Road, Baltimore, MD with Crain Limited Partnership dated March 16, 2001.

Reference is made to that certain Lease for 2579-P Eric Lane, Burlington, NC with Peters Enterprises, Inc. dated August 15, 2000.

Reference is made to that certain Lease for 1246 Brittain Road, OH with GMC Investments, Co., Ltd. dated May 31, 2001.

Reference is made to that certain Lease for 7561 Currency Drive, Orlando, OH with AMB Property, LP dated April 20, 2001.

Reference is made to that certain Lease for 251-109 Dominion Drive, Morrisville, NC with Best & Associates dated June 13, 2001.

See also disclosures in Section 2.19 with respect to Patents, Trademarks or other technology of the Company.

SECTION 2.8
RELATED-PARTY TRANSACTIONS

Reference is made to the Common Stock Purchase Agreements, the Indemnification Agreements, the Co-Sale Agreement, the Investors' Rights Agreement, the Voting Agreement and the Series E Voting Agreement. See Section 2.7 above.

Reference is made to the Butler Loan. See Section 2.7 above.

Reference is made to the Lingren Loan. See Section 2.7 above.

Reference is made to the Loehr Loan. See Section 2.7 above.

Reference is made to the Kilgore Employment Agreement. See Section 2.7 above.

Reference is made to that certain Promissory Note Secured by Stock Pledge Agreement with Boris Apotovsky dated May 15, 2000 in the amount of $33,419.

Reference is made to that certain Promissory Note Secured by Stock Pledge Agreement with Michael Robinson dated January 16, 2001 in the amount of $3,500.

Reference is made to that certain Promissory Note Secured by Stock Pledge Agreement with Joel Tuckey dated September 22, 2000 in the amount of $17,500.

Reference is made to that certain Promissory Note Secured by Stock Pledge Agreement with Rick Linder dated December 22, 2000 in the amount of $17,500.

Reference is made to that certain Promissory Note Secured by Stock Pledge Agreement with Cameron Miller dated January 11, 2001 in the amount of $5,000.

The Company has, from time to time, issued shares of its Series A

Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, and Series E Preferred Stock pursuant to Stock Purchase Agreements with investors affiliated with certain members of its Board of Directors as follows:

SERIES A MARCH 1995	
Kingsbury Capital Partners	1,550,000
Kingsbury Capital Partners II	50,000
SERIES B DECEMBER 1995	
Kingsbury Capital Partners	917,364
Kingsbury Capital Partners II	1,363,636
SERIES C AUGUST 1997	
Kingsbury Capital Partners	600,000
Kingsbury Capital Partners II	600,000
Sorrento Growth Partners I	960,000
Sorrento Ventures II	400,000
Sorrento Ventures III	1,200,000
Sorrento Ventures CE	240,000
SERIES D AUGUST 1997	
Kingsbury Capital Partners	433,407
Sorrento Growth Partners I	457,350
Sorrento Ventures II	184,457
Sorrento Ventures III	544,721
Sorrento Ventures CE	113,693
Vector Later-Stage Equity Fund	2,167,035
Vector Later-Stage Equity Fund II	2,275,389
SERIES E JUNE 1998, MARCH & NOVEMBER 2000, JANUARY 2001	
Kingsbury Capital Partners	64,000
Kingsbury Capital Partners II	61,000
Kingsbury Capital Partners III	428,194
Kingsbury Capital Partners IV	230,566
Sorrento Growth Partners I	113,859
Sorrento Ventures II	46,951
Sorrento Ventures III	140,157
Sorrento Ventures CE	28,413
Vector Later-Stage Equity Fund	160,671
Vector Later-Stage Equity Fund II	83,349
Vector Later-Stage Equity Fund II (QP)	250,048

The Company has issued warrants to purchase up to 49,406 shares of its Series E Preferred Stock to investors affiliated with certain members of its Board of Directors as follows:

SEPTEMBER 29, 2000	
Kingsbury Capital Partners III	9,881
Kingsbury Capital Partners IV	23,057
Vector Later-Stage Equity Fund II	4,117
Vector Later-Stage Equity Fund II (QP)	12,351

SECTION 2.9

REGISTRATION RIGHTS

Reference is made to a certain warrant for 42,490 shares of Series E Preferred Stock with Silicon Valley Bank dated July 31, 2001. Provided a majority of the Registrable Securities to the Investors' Rights Agreement consent, Silicon Valley Bank will be added as a signatory thereto as required under the terms of the warrant.

SECTION 2.10

COMPLIANCE WITH LAW; PERMITS; HEALTH-CARE REGULATORY MATTERS

The Company is aware of certain sales tax deficiencies in connection with the sale of its products in certain states in an aggregate amount which it believes do not exceed $153,000 (the "Sales Tax Deficiencies"). The Sales Tax

Deficiencies were incurred in connection with the sale of Company products in states in which the Company did not have resale permits. The Company has collected the Sales Tax Deficiencies and is in the process of securing resale permits.

SECTION 2.12

LITIGATION

In June 2001, the Company received a letter from an attorney representing American Medical Systems ("AMS") alleging that the Company breached the terms of an exclusive distributorship agreement and demanding payment of approximately $210,000.

In July 2001, the Company was served with a Writ of Garnishment with respect to GENESIS PHARMACY SERVICES V. FLORIDA CARDIOLOGY AND NUCLEAR MEDICINE GROUP, P.A. ET AL., a case currently pending in Hillsborough County, Florida Civil Court. The plaintiff in the cause of action, Genesis Pharmacy Services ("Genesis"), is seeking approximately $157,600 plus interest from the defendants ("Florida Cardiology"). The Company has not been named as party to the litigation. The Company purchased certain of the assets of Florida Cardiology pursuant to a certain Asset Purchase Agreement executed with the defendants. Through the Writ of Garnishment, Genesis is apparently attempting to determine what funds Florida Cardiology and/or Dr. Kilgore may be owed by the Company. The Company has engaged Florida counsel to assist with the Company's possible involvement in the dispute.

In July 2001, the Company was served notice that MEDICAL MANAGEMENT CONCEPTS, INC. V. DIGIRAD CORPORATION, ET AL. (the "Complaint") had been filed in the United States District Court for the Eastern District of Pennsylvania. The Complaint alleges, among other things, breach of the terms of a certain Services Agreement and Employee Lease Agreement, each dated September 2000 and entered into by and between Digirad Imaging Systems, Inc. and Medical Management Concepts, and seeks recovery of damages in an amount in excess of $150,000, more specifically, approximately $81,000 plus 12.5% of the adjusted Estimated Net Revenue generated from gross sums billed to the Company's mobile nuclear imaging customers from May 1, 2001 to October 31, 2003, as more fully described in the NIS Agreement referenced in Section 2.5 (a) above. The Company has engaged Pennsylvania counsel to assist in responding to the litigation.

SECTION 2.16
TITLE TO PROPERTY AND ASSETS; LEASES

Certain of the Company's assets, including but not limited to, Company equipment and inventory is subject to security interests and liens pursuant to the MMC/GATX Agreement as referenced under Section 2.7 above.

Certain of the Company's assets, including but not limited to, Company licenses and intellectual property are subject to security interests and liens pursuant to the First Amendment to MMC/GATX Agreement and the Fourth Amendment to MMC/GATX Agreement as referenced under Section 2.7 above.

Certain of the Company's assets, including but not limited to, Company equipment is subject to security interests and liens pursuant to the Second Amendment to MMC/GATX Agreement and the Third Amendment to MMC/GATX Agreement as referenced under Section 2.7 above.

Certain of the Company's assets, including but not limited to, Company inventory, goods and equipment are subject to security interests and liens pursuant to the First SVB Agreement as referenced under Section 2.7 above.

Certain of the Company's assets, including but not limited to, Company equipment, receivables and intellectual property are subject to security interests and liens pursuant to the Second SVB Agreement as referenced under Section 2.7 above.

Certain of the Company's assets, including but not limited to, Company equipment is subject to security interests and liens pursuant to the GE Healthcare Agreement as referenced under Section 2.7 above.

Certain of the Company's assets, including but not limited to, Company accounts and associated items are subject to security interests and liens pursuant to the Heller Healthcare Agreement as referenced under Section 2.7 above.

Certain of the Company's assets, including but not limited to, Company equipment is subject to security interests and liens pursuant to the MarCap Agreement as referenced under Section 2.7 above.

Certain of the Company's assets, including but not limited to, Company equipment is subject to security interests and liens pursuant to the DVI Agreement as referenced under Section 2.7 above.

SECTION 2.17
FINANCIAL STATEMENTS

The following are liabilities subsequent to June 30, 2001 individually in excess of $50,000 and in the aggregate in excess of $200,000:

COMPANY DESCRIPTION	AMOUNT
Brobeck, Phleger & Harrison	Legal services approximately $210,000
Crown Circuits, Inc. ***	$82,937
Hilger Crystals, Ltd. ***	$127,439
J.W. Marketing Inc. ***	$141,578
Multek, Inc. ***	$78,854
Newmark Systems ***	$182,294
Nycomed Amersham Imaging ***	$144,884
Segami Corporation ***	$67,090
Supercool Thermoelectric ***	$60,298
Syncor International ***	$194,074
Vista Industrial Products ***	$143,431

SECTION 2.18
CHANGES

(e) Reference is made to the First SVB Agreement, as amended. See Section 2.7 above.

(e), (j) Reference is made to the Second SVB Agreement. See Section 2.7 above. Reference is made to the Fourth Amendment to MMC/GATX Agreement. See Section 2.7 above.

(f) Reference is made to the addition of Mr. Brad Nutter to the Company's Board of Directors. In addition, reference is made to the anticipated resignation of Mr. Vincent Burgess from the Company's Board of Directors.

(h) Reference is made to the replacement of Ms. Joyce Mehrberg with Mr. Gary Atkinson as the Company's Chief Financial Officer and Secretary.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

SECTION 2.19

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*** Portions of this page have been omitted pursuant to a request for
Confidential Treatment and filed separately with the Commission.

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Registration of "Digirad"

Filed Application.....September 6, 1994
Patent Office Action.....February 7, 1995
Amended Application filed.....August 14, 1995
Patent Office Action.....April 23, 1996
Reconsideration requested.....July 5, 1996
Appeal filed.....October 18, 1996
Appeal Brief filed.....December 20, 1996
Examining Attorney's Appeal Brief filed.....March 10, 1997
Notice of Acceptance of Statement of Use.....March 2, 1999

*** Portions of this page have been omitted pursuant to a request for
Confidential Treatment and filed separately with the Commission.

Registration of "Digirad Imaging Solutions"

Filed Application.....March 6, 2001

Registration of "Notebook Imager"

Application Serial No. 75/202,360 filed.....November 22, 1996

Registration of "SPECTour"

Application Serial No. 75/799,823 filed.....September 14, 1999

Registration of "2020TC Imager"

Application Serial No. 75/799,499 filed.....September 14, 1999

Registration of "Agile"

Application Serial No. 76/064,092 filed.....June 5, 2000

Reference is made to the QuickSil Agreement. See Section 2.7 above.

Reference is made to the Ethicon Agreement. See Section 2.7 above.

Reference is made to the Berkeley License. See Section 2.7 above.

Reference is made to the Segami Agreement. See Section 2.7 above.

Reference is made to the SAIC Agreement. See Section 2.7 above.

Reference is made to the SIG Agreement. See Section 2.7 above.

Reference is made to the CMS Agreement. See Section 2.7 above.

Reference is made to the CDS Agreement. See Section 2.7 above.

Reference is made to the QAD Agreement. See Section 2.7 above.

Reference is made to the First Amendment to MMC/GATX Agreement. See Section 2.7 above.

Reference is made to the Fourth Amendment to MMC/GATX Agreement. See Section 2.7 above.

Reference is made to the First SVB Agreement. See Section 2.7 above.

Reference is made to the Second SVB Agreement. See Section 2.7 above.

SECTION 2.20
MANUFACTURING AND MARKETING RIGHTS

Reference is made to that certain Quicksil Agreement. See Section 2.7 above.

Reference is made to the D&S Agreements. See Section 2.7 above.

SECTION 2.21
EMPLOYEES; EMPLOYEE COMPENSATION

Reference is made to the Company's 401k Retirement Plan, 125 Plan and 2001 Leadership Bonus Plan (collectively, the "Company Benefit Plans").

Reference is made to the Kilgore Employment Agreement. See Section 2.7 above.

Reference is made to the Mehrberg Separation Agreement. See Section 2.7 above.

SECTION 2.23
TAX RETURNS, PAYMENTS, AND ELECTIONS

The Company was audited by the California Franchise Tax Board for 1993, 1994 and 1995 in routine examinations. No deficiencies were noted.

The Company paid a $1,180.31 penalty assessed against it by the IRS for a tax deficiency that occurred in 1991.

Reference is made to the Sales Tax Deficiencies.

SECTION 2.29
ERISA

Reference is made to the Company Benefit Plans. See Section 2.21 above.

Reference is made to the Company's medical and dental insurance, long term disability, paid time off, and Stock Option Plans.

Reference is made to the Mehrberg Separation Agreement. See Section 2.7 above.

EXHIBIT A

IMMEDIATELY EXERCISABLE

DIGIRAD CORPORATION
STOCK PURCHASE AGREEMENT

AGREEMENT made as of this ___ day of _____, 19__, by and among Digirad Corporation, (the "Corporation"), _____, the holder of a stock option (the "Optionee") under the Corporation's 1997 Stock Option/Stock Issuance Plan and _____, the Optionee's spouse.

I. EXERCISE OF OPTION

1.1 EXERCISE. Optionee hereby purchases _____ shares ("Purchased Shares") of the Corporation's common stock ("Common Stock") pursuant to that certain option ("Option") granted Optionee on _____, 19___ ("Grant Date") to purchase up to _____ shares of the Common Stock ("Total Purchasable Shares") under the Corporation's 1997 Stock Option/Stock Issuance Plan (the "Plan") at an option price of $_____ per share ("Option Price").

1.2 PAYMENT. Concurrently with the delivery of this Agreement to the Corporate Secretary of the Corporation, Optionee shall pay the Option Price for the Purchased Shares in accordance with the provisions of the agreement between the Corporation and Optionee evidencing the Option (the "Option Agreement") and shall deliver whatever additional documents may be required by the Option Agreement as a condition for exercise, together with a duly-executed blank Assignment Separate from Certificate (in the form attached hereto as Exhibit I) with respect to the Purchased Shares.

1.3 DELIVERY OF CERTIFICATES. The certificates representing the Purchased Shares hereunder shall be held in escrow by the Corporate Secretary of the Corporation in accordance with the provisions of Article VII.

1.4 SHAREHOLDER RIGHTS. Until such time as the Corporation actually exercises its repurchase right, rights of first refusal or special purchase right under this Agreement, Optionee (or any successor in interest) shall have all the rights of a shareholder (including voting and dividend rights) with respect to the Purchased Shares, including the Purchased Shares held in escrow under Article VII, subject, however, to the transfer restrictions of Article IV.

II. SECURITIES LAW COMPLIANCE

2.1 EXEMPTION FROM REGISTRATION. The Purchased Shares have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), and are accordingly being issued to Optionee in reliance upon the exemption from such registration provided by Rule 701 of the Securities and Exchange Commission for stock issuances under compensatory benefit plans such as the Plan. Optionee hereby acknowledges previous receipt of a copy of the documentation for such Plan in the form

of Exhibit C to the Notice of Grant of Stock Option (the "Grant Notice") accompanying the Option Agreement.

2.2 RESTRICTED SECURITIES.

A. Optionee hereby confirms that Optionee has been informed that the Purchased Shares are restricted securities under the 1933 Act and may not be resold or transferred unless the Purchased Shares are first registered under the Federal securities laws or unless an exemption from such registration is available. Accordingly, Optionee hereby acknowledges that Optionee is prepared to hold the Purchased Shares for an indefinite period and that Optionee is aware that Rule 144 of the Securities and Exchange Commission issued under the 1933 Act is not presently available to exempt the sale of the Purchased Shares from the registration requirements of the 1933 Act.

B. Upon the expiration of the ninety (90)-day period immediately following the date on which the Corporation first becomes subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Purchased Shares, to the extent vested under Article V, may be sold (without registration) pursuant to the applicable requirements of Rule 144. If Optionee is at the time of such sale an affiliate of the Corporation for purposes of Rule 144 or was such an affiliate during the preceding three (3) months, then the sale must comply with all the requirements of Rule 144 (including the volume limitation on the number of shares sold, the broker/market-maker sale requirement and the requisite notice to the Securities and Exchange Commission); however, the two (2)-year holding period requirement of the Rule will not be applicable. If Optionee is not at the time of the sale an affiliate of the Corporation nor was such an affiliate during the preceding three (3) months, then none of the requirements of Rule 144 (other than the broker/market-maker sale requirement for Purchased Shares held for less than three (3) years following payment in cash of the Option Price therefor) will be applicable to the sale.

C. Should the Corporation not become subject to the reporting requirements of the Exchange Act, then Optionee may, provided he/she is not at the time an affiliate of the Corporation (nor was such an affiliate during the preceding three (3) months), sell the Purchased Shares (without registration) pursuant to paragraph (k) of Rule 144 after the Purchased Shares have been held for a period of three (3) years following the payment in cash of the Option Price for such shares.

2.3 DISPOSITION OF SHARES. Optionee hereby agrees that Optionee shall make no disposition of the Purchased Shares (other than a permitted transfer under paragraph 4.1) unless and until there is compliance with all of the following requirements:

(a) Optionee shall have notified the Corporation of the proposed disposition and provided a written summary of the terms and conditions of the proposed disposition.

(b) Optionee shall have complied with all require-ments of this Agreement applicable to the disposition of the Purchased Shares.

(c) Optionee shall have provided the Corporation with written assurances, in form and substance satisfactory to the Corporation, that (i) the proposed disposition does not require registration of the Purchased Shares under the 1933 Act or (ii) all appropriate action necessary for compliance with the registration requirements of the 1933 Act or of any exemption from registration available under the 1933 Act (including Rule 144) has been taken.

(d) Optionee shall have provided the Corporation with written assurances, in form and substance satisfactory to the Corporation, that the proposed disposition will not result in the contravention of any transfer restrictions applicable to the Purchased Shares pursuant to the provisions of the Commissioner Rules identified in paragraph 2.5.

The Corporation shall not be required (i) to transfer on its books any Purchased Shares which have been sold or transferred in violation of the provisions of this Article II nor (ii) to treat as the owner of the Purchased Shares, or otherwise to accord voting or dividend rights to, any transferee to whom the Purchased Shares have been transferred in contravention of this Agreement.

2.4 RESTRICTIVE LEGENDS. In order to reflect the restrictions on disposition of the Purchased Shares, the stock certificates for the Purchased Shares will be endorsed with restrictive legends, including one or more of the following legends:

(i) "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or offered for sale in the absence of (a) an effective registration statement for the shares under such Act, (b) a 'no action' letter of the Securities and Exchange Commission with respect to such sale or offer, or (c) satisfactory assurances to the Corporation that registration under such Act is not required with respect to such sale or offer."

(ii) "The shares represented by this certificate are unvested and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated _____, 19 __ between the Corporation and the registered holder of the shares (or the predecessor in interest to the shares). Such agreement grants certain repurchase rights and rights of first refusal to the Corporation (or its assignees) upon the sale, assignment, transfer, encumbrance or other disposition of the Corporation's shares or upon termination of service with the Corporation. The Corporation will upon written request furnish a copy of such agreement to the holder hereof without charge."

III. SPECIAL TAX ELECTION

3.1 SECTION 83(b) ELECTION APPLICABLE TO THE EXERCISE OF A NON-STATUTORY STOCK OPTION. If the Purchased Shares are acquired hereunder pursuant to the exercise of a non-statutory stock option, as specified in the Grant Notice, then the Optionee understands that under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), the excess of the fair market value of the Purchased Shares on the

date any forfeiture restrictions applicable to such shares lapse over the Option Price paid for such shares will be reportable as ordinary income on such lapse date. For this purpose, the term "forfeiture restrictions" includes the right of the Corporation to repurchase the Purchased Shares pursuant to the Repurchase Right provided under Article V of this Agreement. Optionee understands that he/she may elect under Section 83(b) of the Code to be taxed at the time the Purchased Shares are acquired hereunder, rather than when and as such Purchased Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within thirty (30) days after the date of this Agreement. Even if the fair market value of the Purchased Shares at the date of this Agreement equals the Option Price paid (and thus no tax is payable), the election must be made to avoid adverse tax consequences in the future. THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT II HERETO. OPTIONEE UNDERSTANDS THAT FAILURE TO MAKE THIS FILING WITHIN THE THIRTY (30)-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME BY THE OPTIONEE AS THE FORFEITURE RESTRICTIONS LAPSE.

3.2 CONDITIONAL SECTION 83(b) ELECTION APPLICABLE TO THE EXERCISE OF AN INCENTIVE STOCK OPTION. If the Purchased Shares are acquired hereunder pursuant to the exercise of an incentive stock option under the Federal tax laws, as specified in the Grant Notice, then the following tax principles shall be applicable to the Purchased Shares:

A. For regular tax purposes, no taxable income will be recognized at the time the Option is exercised.

B. The excess of (i) the fair market value of the Purchased Shares on the date the Option is exercised or (if later) on the date any forfeiture restrictions applicable to the Purchased Shares lapse over (ii) the Option Price paid for the Purchased Shares will be includible in the Optionee's taxable income for alternative minimum tax purposes.

C. If the Optionee makes a disqualifying disposition of the Purchased Shares, then the Optionee will recognize ordinary income in the year of such disposition equal in amount to the excess of (i) the fair market value of the Purchased Shares on the date the Option is exercised or (if later) on the date any forfeiture restrictions applicable to the Purchased Shares lapse over (ii) the Option Price paid for the Purchased Shares. Any additional gain recognized upon the disqualifying disposition will be either short-term or long-term capital gain depending upon the period for which the Purchased Shares are held prior to the disposition.

D. For purposes of the foregoing, the term "forfeiture restrictions" will include the right of the Corporation to repurchase the Purchased Shares pursuant to the Repurchase Right provided under Article V of this Agreement. The term "disqualifying disposition" means any sale or other

disposition (1/) of the Purchased Shares within two (2) years after the Grant Date or within one (1) year after the execution date of this Agreement.

E. In the absence of final Treasury Regulations relating to incentive stock options, it is not certain whether the Optionee may, in connection with the exercise of the Option for any Purchased Shares at the time subject to forfeiture restrictions, file a protective election under Section 83(b) of the Code which would limit (I) the Optionee's alternative minimum taxable income upon exercise and (II) the Optionee's ordinary income upon a disqualifying disposition, to the excess of (i) the fair market value of the Purchased Shares on the date the Option is exercised over (ii) the Option Price paid for the Purchased Shares. THE APPROPRIATE FORM FOR MAKING SUCH A PROTECTIVE ELECTION IS ATTACHED AS EXHIBIT II TO THIS AGREEMENT AND MUST BE FILED WITH THE INTERNAL REVENUE SERVICE WITHIN THIRTY (30) DAYS AFTER THE DATE OF THIS AGREEMENT. HOWEVER, SUCH ELECTION IF PROPERLY FILED WILL ONLY BE ALLOWED TO THE EXTENT THE FINAL TREASURY REGULATIONS PERMIT SUCH A PROTECTIVE ELECTION.

3.3 OPTIONEE ACKNOWLEDGES THAT IT IS OPTIONEE'S SOLE RESPONSIBILITY, AND NOT THE CORPORATION'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF OPTIONEE REQUESTS THE CORPORATION OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS/HER BEHALF. This filing should be made by registered or certified mail, return receipt requested, and Optionee must retain two (2) copies of the completed form for filing with his or her State and Federal tax returns for the current tax year and an additional copy for his or her records.

IV. TRANSFER RESTRICTIONS

4.1 RESTRICTION ON TRANSFER. Optionee shall not transfer, assign, encumber or otherwise dispose of any of the Purchased Shares which are subject to the Corporation's Repur-chase Right under Article V. In addition, Purchased Shares which are released from the Repurchase Right shall not be transferred, assigned, encumbered or otherwise made the subject of disposition in contravention of the Corporation's First Refusal Right under Article VI. Such restrictions on transfer, however, shall not be applicable to (i) a gratuitous transfer of the Purchased Shares made to the Optionee's spouse or issue, including adopted children, or to a trust for the exclusive benefit of the Optionee or the Optionee's spouse or issue, PROVIDED AND ONLY if the Optionee obtains the Corporation's prior written consent to such transfer, (ii) a transfer of title to the Purchased Shares effected pursuant to the Optionee's will or the laws of intestate succession or (iii) a

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(1/) Generally, a disposition of shares purchased under an incentive stock option includes any transfer of legal title, including a transfer by sale, exchange or gift, but does not include a transfer to the Optionee's spouse, a transfer into joint ownership with right of survivorship if Optionee remains one of the joint owners, a pledge, a transfer by bequest or inheritance or certain tax free exchanges permitted under the Code.

transfer to the Corporation in pledge as security for any purchase-money indebtedness incurred by the Optionee in connection with the acquisition of the Purchased Shares.

4.2 TRANSFEREE OBLIGATIONS. Each person (other than the Corporation) to whom the Purchased Shares are transferred by means of one of the permitted transfers specified in paragraph 4.1 must, as a condition precedent to

the validity of such transfer, acknowledge in writing to the Corporation that such person is bound by the provisions of this Agreement and that the transferred shares are subject to (i) both the Corporation's Repurchase Right and the Corporation's First Refusal Right granted hereunder and (ii) the market stand-off provisions of paragraph 4.4, to the same extent such shares would be so subject if retained by the Optionee.

4.3 DEFINITION OF OWNER. For purposes of Articles IV, V, VI and VII of this Agreement, the term "Owner" shall include the Optionee and all subsequent holders of the Purchased Shares who derive their chain of ownership through a permitted transfer from the Optionee in accordance with paragraph 4.1.

4.4 MARKET STAND-OFF PROVISIONS.

A. In connection with any underwritten public offering by the Corporation of its equity securities pursuant to an effective registration statement filed under the 1933 Act, including the Corporation's initial public offering, Owner shall not sell, make any short sale of, loan, hypothecate, pledge, grant any option for the purchase of, or otherwise dispose or transfer for value or otherwise agree to engage in any of the foregoing transactions with respect to, any Purchased Shares without the prior written consent of the Corporation or its underwriters. Such limitations shall be in effect for such period of time from and after the effective date of such registration statement as may be requested by the Corporation or such underwriters; PROVIDED, however, that in no event shall such period exceed one hundred-eighty (180) days. The limitations of this paragraph 4.4 shall remain in effect for the two-year period immediately following the effective date of the Corporation's initial public offering and shall thereafter terminate and cease to have any force or effect.

B. Owner shall be subject to the market stand-off provisions of this paragraph 4.4 PROVIDED AND ONLY IF the officers and directors of the Corporation are also subject to similar arrangements.

C. In the event of any stock dividend, stock split, recapitalization or other change affecting the Corporation's outstanding Common Stock effected as a class without receipt of considera-tion, then any new, substituted or additional securities distributed with respect to the Purchased Shares shall be immediately subject to the provisions of this paragraph 4.4, to the same extent the Purchased Shares are at such time covered by such provisions.

D. In order to enforce the limitations of this paragraph 4.4, the Corporation may impose stop-transfer instruc-tions with respect to the Purchased Shares until the end of the applicable stand-off period.

V. REPURCHASE RIGHT

5.1 GRANT. The Corporation is hereby granted the right (the "Repurchase Right"), exercisable at any time during the sixty (60)-day period following the date the Optionee ceases for any reason to remain in Service or (if later) during the sixty (60)-day period following the execution date of this Agreement, to repurchase at the Option Price all or (at the discretion of the Corporation and with the consent of the Optionee) any portion of the Purchased Shares in which the Optionee has not acquired a vested interest in accordance with the vesting provisions of paragraph 5.3 (such shares to be hereinafter called the "Unvested Shares"). For purposes of this Agreement, the Optionee shall be deemed to remain in Service for so long as the Optionee continues to render periodic services to the Corporation or any parent or subsidiary corporation, whether as an employee, a non-employee member of the board of directors, or an independent contractor or consultant.

5.2 EXERCISE OF THE REPURCHASE RIGHT. The Repurchase Right shall be exercisable by written notice delivered to the Owner of the Unvested Shares prior to the expiration of the applicable sixty (60)-day period specified in paragraph 5.1. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than thirty (30) days after the date of notice. To the extent one or more certificates representing Unvested Shares may have been previously delivered out of escrow to the Owner, then Owner shall, prior to the close of business on the date specified for the repurchase, deliver to the Secretary of the Corporation the certificates representing the Unvested Shares to be repurchased, each certificate to be properly endorsed for transfer. The Corporation shall, concurrently with the receipt of such stock certificates (either from escrow in accordance with paragraph 7.3 or from Owner as herein provided), pay to Owner in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Option Price previously paid for the Unvested Shares which are to be repurchased.

5.3 TERMINATION OF THE REPURCHASE RIGHT. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under paragraph 5.2. In addition, the Repurchase Right shall terminate, and cease to be exercisable, with respect to any and all Purchased

Shares in which the Optionee vests in accordance with the vesting schedule specified in the Grant Notice. All Purchased Shares as to which the Repurchase Right lapses shall, however, continue to be subject to (i) the First Refusal Right of the Corporation and its assignees under Article VI, (ii) the market stand-off provisions of paragraph 4.4 and (iii) the Special Purchase Right under Article VIII.

5.4 AGGREGATE VESTING LIMITATION. If the Option is exercised in more than one increment so that the Optionee is a party to one or more other Stock Purchase Agreements ("Prior Purchase Agreements") which are executed prior to the date of this Agreement, then the total number of Purchased Shares as to which the Optionee shall be deemed to have a fully-vested interest under this Agreement and all Prior Purchase Agreements shall not exceed in the aggregate the number of Purchased Shares in which the Optionee would otherwise at the time be vested, in accordance with the vesting

provisions of paragraph 5.3, had all the Purchased Shares been acquired exclusively under this Agreement.

5.5 FRACTIONAL SHARES. No fractional shares shall be repurchased by the Corporation. Accordingly, should the Repurchase Right extend to a fractional share (in accordance with the vesting provisions of paragraph 5.3) at the time the Optionee ceases Service, then such fractional share shall be added to any fractional share in which the Optionee is at such time vested in order to make one whole vested share no longer subject to the Repurchase Right.

5.6 ADDITIONAL SHARES OR SUBSTITUTED SECURITIES. In the event of any stock dividend, stock split, recapitalization or other change affecting the Corporation's outstanding Common Stock as a class effected without receipt of consideration, then any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which is by reason of any such transaction distributed with respect to the Purchased Shares shall be immediately subject to the Repurchase Right, but only to the extent the Purchased Shares are at the time covered by such right. Appropriate adjustments to reflect the distribution of such securities or property shall be made to the number of Purchased Shares and Total Purchasable Shares hereunder and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such transaction upon the Corporation's capital structure; provided, however, that the aggregate purchase price shall remain the same.

5.7 CORPORATE TRANSACTION.

A. The Repurchase Rights shall automatically terminate and cease to be exercisable upon the consummation of any Corporate Transaction, provided that such repurchase right shall not terminate if and to the extent the Repurchase Rights are assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction.

B. Repurchase rights which are assigned in connection with a Corporate Transaction shall be exercisable with respect to the property issued to the Optionee upon consummation of such Corporate Transaction in exchange for the Common Stock held by the Optionee subject to the repurchase rights immediately prior to the Corporate Transaction.

C. Any Repurchase Rights which are assigned in a Corporate Transaction and do not otherwise become vested at that time, shall automatically terminate and cease to be exercisable in the event the Optionee's Service should subsequently terminate by reason of an Involuntary Termination within twenty-four (24) months following the effective date of such Corporate Transaction.

D. This Agreement shall not in any way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

VI. RIGHT OF FIRST REFUSAL

6.1 GRANT. The Corporation is hereby granted rights of first refusal (the "First Refusal Right"), exercisable in connection with any proposed transfer of the Purchased Shares in which the Optionee has vested in accordance with the vesting provisions of Article V. For purposes of this Article VI, the term "transfer" shall include any sale, assignment, pledge, encumbrance or other disposition for value of the Purchased Shares intended to be made by the Owner, but shall not include any of the permitted transfers under paragraph 4.1.

6.2 NOTICE OF INTENDED DISPOSITION. In the event the Owner

desires to accept a bona fide third-party offer for the transfer of any or all of the Purchased Shares (the shares subject to such offer to be hereinafter called the "Target Shares"), Owner shall promptly (i) deliver to the Corporate Secretary of the Corporation written notice (the "Disposition Notice") of the terms and conditions of the offer, including the purchase price and the identity of the third-party offeror, and (ii) provide satisfactory proof that the disposition of the Target Shares to such third-party offeror would not be in contravention of the provisions set forth in Articles II and IV of this Agreement.

6.3 EXERCISE OF RIGHT. The Corporation shall, for a period of forty-five (45) days following receipt of the Disposition Notice, have the right to repurchase any or all of the Target Shares specified in the Disposition Notice upon the same terms and conditions specified therein or upon terms and conditions which do not materially vary from those specified therein. Such right shall be exercisable by delivery of written notice (the "Exercise Notice") to Owner prior to the expiration of the forty-five (45)-day exercise period. If such right is exercised with respect to all the Target Shares specified in the Disposition Notice, then the Corporation (or its assignees) shall effect the repurchase of the Target Shares, including payment of the purchase price, not more than ten (10) business days after delivery of the Exercise Notice; and at such time Owner shall deliver to the Corporation the certificates repre-senting the Target Shares to be repurchased, each certificate to be properly endorsed for transfer. To the extent any of the Target Shares are at the time held in escrow under Article VII, the certificates for such shares shall automatically be released from escrow and delivered to the Corporation for purchase. Should the purchase price specified in the Disposition Notice be payable in property other than cash or evidences of indebtedness, the Corporation (or its assignees) shall have the right to pay the purchase price in the form of cash equal in amount to the value of such property. If the Owner and the Corporation (or its assignees) cannot agree on such cash value within ten (10) days after the Corporation's receipt of the Disposition Notice, the valuation shall be made by an appraiser of recognized standing selected by the Owner and the Corporation (or its assignees) or, if they cannot agree on an appraiser within twenty (20) days after the Corporation's receipt of the Disposition Notice, each shall select an appraiser of recognized standing and the two appraisers shall designate a third appraiser of recognized standing, whose appraisal shall be determinative of such value. The cost of such appraisal shall be shared equally by the Owner and the Corporation. The closing shall then be held on the later of (i) the tenth business day following delivery of the Exercise Notice or (ii) the tenth business day after such cash valuation shall have been made.

6.4 NON-EXERCISE OF RIGHT. In the event the Exercise Notice is not given to Owner within forty-five (45) days following the date of the Corporation's receipt of the Dis-position Notice, Owner shall have a period of thirty (30) days thereafter in which to sell or otherwise dispose of the Target Shares to the third-party offeror identified in the Disposition Notice upon terms and conditions (including the purchase price) no more favorable to such third-party offeror than those specified in the Disposition Notice; provided, however, that any such sale or disposition must not be effected in contravention of the provisions of Article II of this Agreement. To the extent any of the Target Shares are at the time held in escrow under Article VII, the certificates for such shares shall automatically be released from escrow and surrendered to the Owner. The third-party offeror shall acquire the Target Shares free and clear of the Corporation's Repurchase Right under Article V and the Corporation's First Refusal Right hereunder, but the acquired shares shall remain subject to (i) the securities law restrictions of paragraph 2.2(a) and (ii) the market stand-off provisions of paragraph 4.4. In the event Owner does not effect such sale or disposition of the Target Shares within the specified thirty (30)-day period, the Corporation's First Refusal Right shall continue to be applicable to any subsequent disposition of the Target Shares by Owner until such right lapses in accordance with paragraph 6.7.

6.5 PARTIAL EXERCISE OF RIGHT. In the event the Corporation (or its assignees) makes a timely exercise of the First Refusal Right with respect to a portion, but not all, of the Target Shares specified in the Disposition Notice, Owner shall have the option, exercisable by written notice to the Corporation delivered within thirty (30) days after the date of the Disposition Notice, to effect the sale of the Target Shares pursuant to one of the following alternatives:

(i) sale or other disposition of all the Target Shares to the third-party offeror identified in the Disposition Notice, but in full compliance with the requirements of paragraph 6.4, as if the Corporation did not exercise the First Refusal Right hereunder; or

(ii) sale to the Corporation (or its assignees) of the portion of the Target Shares which the Corporation (or its assignees) has elected to purchase, such sale to be effected in substantial conformity with the provisions of paragraph 6.3.

Failure of Owner to deliver timely notification to the Corporation under this paragraph 6.5 shall be deemed to be an election by Owner to sell the Target Shares pursuant to alternative (i) above.

6.6 RECAPITALIZATION/MERGER.

(a) In the event of any stock dividend, stock split, recapitalization or other transaction affecting the Corporation's outstanding Common Stock as a class effected without receipt of consideration, then any new, substituted or additional securities or other property which is by reason of such transaction distributed with respect to the Purchased Shares shall be immediately subject to the Corporation's

First Refusal Right hereunder, but only to the extent the Purchased Shares are at the time covered by such right.

(b) In the event of any of the following transactions:

(i) a merger or consolidation in which the Corporation is not the surviving entity,

(ii) a sale, transfer or other disposition of all or substantially all of the Corporation's assets,

(iii) a reverse merger in which the Corporation is the surviving entity but in which the Corporation's outstanding voting securities are transferred in whole or in part to person or persons other than those who held such securities immediately prior to the merger, or

(iv) any transaction effected primarily to change the State in which the Corporation is incorporated, or to create a holding company structure,

the Corporation's First Refusal Right shall remain in full force and effect and shall apply to the new capital stock or other property received in exchange for the Purchased Shares in consummation of the transaction but only to the extent the Purchased Shares are at the time covered by such right.

6.7 LAPSE. The First Refusal Right under this Article VI shall lapse and cease to have effect upon the earliest to occur of (i) the first date on which shares of the Corporation's Common Stock are held of record by more than five hundred (500) persons, (ii) a determination is made by the Corporation's Board of Directors that a public market exists for the outstanding shares of the Corporation's Common Stock, or (iii) a firm commitment underwritten public offering pursuant to an effective registration statement under the 1933 Act, covering the offer and sale of the Corporation's Common Stock in the aggregate amount of at least $5,000,000. However, the market stand-off provisions of paragraph 4.4 shall continue to remain in full force and effect following the lapse of the First Refusal Right hereunder.

VII. ESCROW

7.1 DEPOSIT. Upon issuance, the certificates for any Unvested Shares purchased hereunder shall be deposited in escrow with the Corporate Secretary of the Corporation- to be held in accordance with the provisions of this Article VII. Each deposited certificate shall be accompanied by a duly-executed Assignment Separate from Certificate in the form of Exhibit I. The deposited certificates, together with any other assets or securities from time to time deposited with the Corporate Secretary pursuant to the requirements of this Agreement, shall remain in escrow until such time or times as the certificates (or other assets and securities) are to be released or otherwise surrendered for cancellation in accordance with paragraph 7.3. Upon delivery of the certificates (or other assets and securities) to the Corporate Secretary of the Corporation, the Owner shall be

issued an instrument of deposit acknowledging the number of Unvested Shares (or other assets and securities) delivered in escrow.

7.2 RECAPITALIZATION. All regular cash dividends on the Unvested Shares (or other securities at the time held in escrow) shall be paid directly to the Owner and shall not be held in escrow. However, in the event of any stock dividend, stock split, recapitalization or other change affecting the Corporation's outstanding Common Stock as a class effected without receipt of consideration or in the event of a Corporate Transaction, any new, substituted or additional securities or other property which is by reason of such

transaction distributed with respect to the Unvested Shares shall be immediately delivered to the Corporate Secretary to be held in escrow under this Article VII, but only to the extent the Unvested Shares are at the time subject to the escrow requirements of paragraph 7.1.

7.3 RELEASE/SURRENDER. The Unvested Shares, together with any other assets or securities held in escrow hereunder, shall be subject to the following terms and conditions relating to their release from escrow or their surrender to the Corporation for repurchase and cancellation:

(i) Should the Corporation (or its assignees) elect to exercise the Repurchase Right under Article V with respect to any Unvested Shares, then the escrowed certificates for such Unvested Shares (together with any other assets or securities issued with respect thereto) shall be delivered to the Corporation concurrently with the payment to the Owner, in cash or cash equivalent (including the cancellation of any purchase-money indebtedness), of an amount equal to the aggregate Option Price for such Unvested Shares, and the Owner shall cease to have any further rights or claims with respect to such Unvested Shares (or other assets or securities attributable to such Unvested Shares).

(ii) Should the Corporation (or its assignees) elect to exercise its First Refusal Right under Article VI with respect to any vested Target Shares held at the time in escrow hereunder, then the escrowed certificates for such Target Shares (together with any other assets or securities attributable thereto) shall, concurrently with the payment of the paragraph 6.3 purchase price for such Target Shares to the Owner, be surrendered to the Corporation, and the Owner shall cease to have any further rights or claims with respect to such Target Shares (or other assets or securities).

(iii) Should the Corporation (or its assignees) elect not to exercise its First Refusal Right under Article VI with respect to any Target Shares held at the time in escrow hereunder, then the escrowed certificates for such Target Shares (together with any other assets or securities attributable thereto) shall be surrendered to the Owner for disposition in accordance with provisions of paragraph 6.4.

(iv) As the interest of the Optionee in the Unvested Shares (or any other assets or securities attributable thereto) vests in accordance

with the provisions of Article V, the certificates for such vested shares (as well as all other vested assets and securities) shall be released from escrow and delivered to the Owner in accordance with the following schedule:

a. The initial release of vested shares (or other vested assets and securities) from escrow shall be effected within thirty (30) days following the expiration of the initial twelve (12)-month period measured from the Grant Date.

b. Subsequent releases of vested shares (or other vested assets and securities) from escrow shall be effected at semi-annual intervals thereafter, with the first such semi-annual release to occur eighteen (18) months after the Grant Date.

c. Upon the Optionee's cessation of Service, any escrowed Purchased Shares (or other assets or securities) in which the Optionee is at the time vested shall be promptly released from escrow.

d. Upon any earlier termination of the Corporation-'s Repurchase Right in accordance with the applicable provisions of Article V, any Purchased Shares (or other assets or securities) at the time held in escrow hereunder shall promptly be released to the Owner as fully-vested shares or other property.

(v) All Purchased Shares (or other assets or securities) released from escrow in accordance with the provisions of subparagraph (iv) above shall nevertheless remain subject to (I) the Corporation's First Refusal Right under Article VI until such right lapses pursuant to paragraph 6.7, (II) the market stand-off provisions of paragraph 4.4 until such provisions terminate in accordance therewith and (III) the Special Purchase Right under Article VIII.

VIII. MARITAL DISSOLUTION OR LEGAL SEPARATION

8.1 GRANT. In connection with the dissolution of the Optionee's marriage or the legal separation of the Optionee and the Optionee's spouse, the Corporation shall have the right (the "Special Purchase Right"), exercisable at any time during the thirty (30)-day period following the Corporation's receipt of the required Dissolution Notice under paragraph 8.2, to purchase from the Optionee's spouse, in accordance with the provisions of paragraph 8.3, all or any portion of the Purchased Shares which would otherwise be awarded to such spouse in settlement of any community property or other marital property rights such spouse may have in such shares.

8.2 NOTICE OF DECREE OR AGREEMENT. The Optionee shall promptly provide the Secretary of the Corporation with written notice (the "Dissolution Notice") of (i) the entry of any judicial decree or order resolving the property rights of the Optionee and the Optionee's spouse in connection with their marital dissolu-tion or legal separation or (ii) the execution of any contract or agreement relating to the distribution or division of

such property rights. The Dissolution Notice shall be accompanied by a copy of the actual decree of dissolution or settlement agreement between the Optionee and the Optionee's spouse which provides for the award to the spouse of one or more Purchased Shares in settlement of any community property or other marital property rights such spouse may have in such shares.

8.3 EXERCISE OF SPECIAL PURCHASE RIGHT. The Special Purchase Right shall be exercisable by delivery of written notice (the "Purchase Notice") to the Optionee and the Optionee's spouse within thirty (30) days after the Corporation's receipt of the Dissolution Notice. The Purchase Notice shall indicate the number of shares to be purchased by the Corporation, the date such purchase is to be effected (such date to be not less than five (5) business days, nor more than ten (10) business days, after the date of the Purchase Notice), and the fair market value to be paid for such Purchased Shares. The Optionee (or the Optionee's spouse, to the extent such spouse has physical possession of the Purchased Shares) shall, prior to the close of business on the date specified for the purchase, deliver to the Corporate Secretary of the Corporation the certificates representing the shares to be purchased, each certificate to be properly endorsed for transfer. To the extent any of the shares to be purchased by the Corporation are at the time held in escrow under Article VII, the certificates for such shares shall be promptly delivered out of escrow to the Corporation. The Corporation shall, concurrently with the receipt of the stock certificates, pay to the Optionee's spouse (in cash or cash equivalents) an amount equal to the fair market value specified for such shares in the Purchase Notice.

If the Optionee's spouse does not agree with the fair market value specified for the shares in the Purchase Notice, then the spouse shall promptly notify the Corporation in writing of such disagreement and the fair market value of such shares shall thereupon be determined by an appraiser of recognized standing selected by the Corporation and the spouse. If they cannot agree on an appraiser within twenty (20) days after the date of the Purchase Notice, each shall select an appraiser of recognized standing, and the two appraisers shall designate a third appraiser of recognized standing whose appraisal shall be determinative of such value. The cost of the appraisal shall be shared equally by the Corporation and the Optionee's spouse. The closing shall then be held on the fifth business day following the completion of such appraisal; provided, however, that if the appraised value is more than fifteen percent (15%) greater than the fair market value specified for the shares in the Purchase Notice, the Corporation shall have the right, exercisable prior to the expiration of such five (5)-business-day period, to rescind the exercise of the Special Purchase Right and thereby revoke its election to purchase the shares awarded to the spouse.

8.4 LAPSE. The Special Purchase Right under this Article VIII shall lapse and cease to have effect upon the earlier to occur of (i) the first date on which the First Refusal Right under Article VI lapses or (ii) the expiration of the thirty (30)-day exercise period specified in paragraph 8.3, to the extent the Special Purchase Right is not timely exercised in accordance with such paragraph.

IX. GENERAL PROVISIONS

9.1 ASSIGNMENT. The Corporation may assign its Repurchase Right under Article V, its First Refusal Right under Article VI and/or its Special Purchase Right under Article VIII to any person or entity selected by the Corporation's Board of Directors, including (without limitation) one or more shareholders of the Corporation.

If the assignee of the Repurchase Right is other than a one hundred percent (100%) owned subsidiary corporation of the Corporation or the parent corporation owning one hundred percent (100%) of the Corporation, then such assignee must make a cash payment to the Corporation, upon the assignment of the Repurchase Right, in an amount equal to the excess (if any) of (i) the fair market value of the Unvested Shares at the time subject to the assigned Repurchase Right over (ii) the aggregate repurchase price payable for the Unvested Shares thereunder.

9.2 DEFINITIONS. For purposes of this Agreement, the following provisions shall be applicable in determining the parent and subsidiary corporations of the Corporation:

(i) Any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation shall be considered to be a parent corporation of the Corporation, provided each such corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(ii) Each corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation shall be considered to be a subsidiary of the Corporation, provided each such corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

9.3 NO EMPLOYMENT OR SERVICE CONTRACT. Nothing in this Agreement or in the Plan shall confer upon the Optionee any right to continue in the Service of the Corporation (or any parent or subsidiary corporation of the Corporation employing or retaining Optionee) for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any parent or subsidiary corporation of the Corporation employing or retaining Optionee) or the Optionee, which rights are hereby expressly reserved by each, to terminate the Optionee's Service at any time for any reason whatsoever, with or without cause.

9.4 NOTICES. Any notice required in connection with (i) the Repurchase Right, the Special Purchase Right or the First Refusal Right or (ii) the disposition of any Purchased Shares covered thereby shall be given in writing and shall be deemed effective upon personal delivery or upon deposit in the United States mail, registered or certified, postage prepaid and addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such

other address as such party may designate by ten (10) days advance written notice under this paragraph 9.4 to all other parties to this Agreement.

9.5 NO WAIVER. The failure of the Corporation (or its assignees) in any instance to exercise the Repurchase Right granted under Article V, or the failure of the Corporation (or its assignees) in any instance to exercise the First Refusal Right granted under Article VI, or the failure of the Corporation (or its assignees) in any instance to exercise the Special Purchase Right granted under Article VIII shall not constitute a waiver of any other repurchase rights and/or rights of first refusal that may subsequently arise under the provisions of this Agreement or any other agreement between the Corporation and the Optionee or the Optionee's spouse. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

9.6 CANCELLATION OF SHARES. If the Corporation (or its assignees) shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Purchased Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement), and such shares shall be deemed purchased in accordance with the applicable provisions hereof and the Corporation (or its assignees) shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

X. MISCELLANEOUS PROVISIONS

10.1 OPTIONEE UNDERTAKING. Optionee hereby agrees to take whatever additional action and execute whatever additional documents the Corporation may in its judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either

the Optionee or the Purchased Shares pursuant to the express provisions of this Agreement.

10.2 AGREEMENT IS ENTIRE CONTRACT. This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and shall in all respects be construed in conformity with the express terms and provisions of the Plan.

10.3 GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, as such laws are applied to contracts entered into and performed in such State without resort to that State's conflict-of-laws rules.

10.4 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

10.5 SUCCESSORS AND ASSIGNS. The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and the Optionee and the Optionee's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms and conditions hereof.

10.6 POWER OF ATTORNEY. Optionee's spouse hereby appoints Optionee his or her true and lawful attorney in fact, for him or her and in his or her name, place and stead, and for his or her use and benefit, to agree to any amendment or modification of this Agreement and to execute such further instruments and take such further actions as may reasonably be necessary to carry out the intent of this Agreement. Optionee's spouse further gives and grants unto Optionee as his or her attorney in fact full power and authority to do and perform every act necessary and proper to be done in the exercise of any of the foregoing powers as fully as he or she might or could do if personally present, with full power of substitution and revocation, hereby ratifying and confirming all that Optionee shall lawfully do and cause to be done by virtue of this power of attorney.

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IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first indicated above.

DIGIRAD CORPORATION

By: ----------

Title: ----------

Address: ----------

Optionee (*/)

Address: ----------

The undersigned spouse of Optionee has read and hereby approves the foregoing Stock Purchase Agreement. In consider-ation of the Corporation's granting the Optionee the right to acquire the Purchased Shares in accordance with the terms of such Agreement, the undersigned hereby agrees to be irrevocably bound by all the terms and provisions of such Agreement, including

(specifically) the right of the Corporation (or its assignees) to purchase any and all interest or right the undersigned may otherwise have in such shares pursuant to community property laws or other marital property rights.

Optionee's Spouse

Address:

(*/) I have executed the Section 83(b) election that was attached hereto as an Exhibit. As set forth in Article III, I understand that I, and NOT the Corporation, will be responsible for completing the form and filing the election with the appropriate office of the Federal and State tax authorities and that if such filing is not completed within thirty (30) days after the date of this Agreement, I will not be entitled to the tax benefits provided by Section 83(b).

EXHIBIT I

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED _____ hereby sell(s), assign(s) and transfer(s) unto Digirad Corporation (the "Corporation"), _____(_____) shares of the Common Stock of the Corporation standing in his\her name on the books of the Corporation represented by Certificate No._____ and do hereby irrevocably constitute and appoint _____ as Attorney to transfer the said stock on the books of the Corporation with full power of substitution in the premises. Dated:_____

Signature _____

INSTRUCTION: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to enable the Corporation to exercise its Repurchase Right set forth in the Agreement without requiring additional signatures on the part of the Optionee.

REPURCHASE RIGHTS

EXHIBIT II

SECTION 83(b) TAX ELECTION

This statement is being made under Section 83(b) of the Internal Revenue Code, pursuant to Treas. Reg. Section 1.83-2.

(1) The taxpayer who performed the services is:

Name:
Address:
Taxpayer Ident. No.:

(2) The property with respect to which the election is being made is _____ shares of the common stock of Digirad Corporation.

(3) The property was issued on _____, 19___.

(4) The taxable year in which the election is being made is the calendar year 19 .

(5) The property is subject to a repurchase right pursuant to which the issuer has the right to acquire the property at the original purchase price if for any reason taxpayer's employment with the issuer is terminated. The issuer's repurchase right lapses in a series of annual

and monthly installments over a four year period ending on _____, 19___.

(6) The fair market value at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) is $_____ per share.

(7) The amount paid for such property is $_____ per share.

(8) A copy of this statement was furnished to Digirad Corporation for whom taxpayer rendered the services underlying the transfer of property.

(9) This statement is executed as of: _____.

_____ _____

Spouse (if any)... Taxpayer

This form must be filed with the Internal Revenue Service Center with which taxpayer files his/her Federal income tax returns. The filing must be made within 30 days after the execution date of the Stock Purchase Agreement.

SPECIAL PROTECTIVE ELECTION PURSUANT TO SECTION 83(b) OF THE INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY ACQUIRED UPON EXERCISE OF AN INCENTIVE STOCK OPTION

The property described in the above Section 83(b) election is comprised of shares of common stock acquired pursuant to the exercise of an incentive stock option under Section 422 of the Code. Accordingly, it is the intent of the Taxpayer to utilize this election to achieve the following tax results:

1. The purpose of this election is to have the alternative minimum taxable income attributable to the purchased shares measured by the amount by which the fair market value of such shares at the time of their transfer to the Taxpayer exceeds the purchase price paid for the shares. In the absence of this election, such alternative minimum taxable income would be measured by the spread between the fair market value of the purchased shares and the purchase price which exists on the various lapse dates in effect for the forfeiture restric-tions applicable to such shares. The election is to be effective to the full extent permitted under the Internal Revenue Code.

2. Section 421(a)(1) of the Code expressly excludes from income any excess of the fair market value of the purchased shares over the amount paid for such shares. Accordingly, this election is also intended to be effective in the event there is a "disqualifying disposition" of the shares, within the meaning of Section 421(b) of the Code, which would otherwise render the provisions of Section 83(a) of the Code applicable at that time. Consequently, the Taxpayer hereby elects to have the amount of disqualifying disposition income measured by the excess of the fair market value of the purchased shares on the date of transfer to the Taxpayer over the amount paid for such shares. Since Section 421(a) presently applies to the shares which are the subject of this Section 83(b) election, no taxable income is actually recognized for regular tax purposes at this time, and no income taxes are payable, by the Taxpayer as a result of this election.

This form should be filed with the Internal Revenue Service Center with which taxpayer files his/her Federal income tax returns. The filing must be made within 30 days after the execution date of the Stock Purchase Agreement.

NOTE: PAGE 2 SHOULD BE ATTACHED ONLY IF YOU ARE EXERCISING AN INCENTIVE STOCK OPTION.

EXHIBIT B

DIGIRAD CORPORATION
STOCK OPTION AGREEMENT

RECITALS

A. The Board of Directors of the Corporation has adopted the Digirad Corporation 1997 Stock Option/Stock Issuance Plan (the "Plan") for the purpose of attracting and retaining the services of persons who contribute to the growth and financial success of the Corporation.

B. Optionee is a person who the Plan Administrator believes has and

will contribute to the growth and financial success of the Corporation and this Agreement is executed pursuant to and is intended to carry out the purposes of the Plan.

AGREEMENT

NOW, THEREFORE, it is hereby agreed as follows:

1. GRANT OF OPTION. Subject to and upon the terms and conditions set forth in this Agreement, the Corporation hereby grants to Optionee, as of the grant date (the "Grant Date") specified in the accompanying Notice of Grant of Stock Option (the "Grant Notice"), a stock option to purchase up to that number of shares of the Corporation's Common Stock (the "Option Shares") as is specified in the Grant Notice. The Option Shares shall be purchasable from time to time during the option term at the option price per share (the "Option Price") specified in the Grant Notice. Capitalized terms used herein which are not otherwise defined shall have the meaning ascribed to such terms in the Plan.

2. OPTION TERM. This option shall have a maximum term of ten (10) years measured from the Grant Date and shall expire at the close of business on the expiration date (the "Expiration Date") specified in the Grant Notice, unless sooner terminated in accordance with Paragraph 5, 6 or 17.

3. LIMITED TRANSFERABILITY. This option shall be neither transferable nor assignable by Optionee other than by will or by the laws of descent and distribution following Optionee's death and may be exercised, during Optionee's lifetime, only by Optionee.

4. DATES OF EXERCISE. This option may not be exercised in whole or in part at any time prior to the time the Plan is approved by the Corporation's shareholders in accordance with Paragraph 17. Provided such shareholder approval is obtained, this option shall thereupon become exercisable for the Option Shares in one or more installments as is specified in the Grant Notice. As the option becomes exercisable in one or more installments, the installments shall accumulate and the option shall remain

exercisable for such installments until the Expiration Date or the sooner termination of the option term under Paragraph 5 or Paragraph 6 of this Agreement.

5. SPECIAL TERMINATION OF OPTION TERM. The option term specified in Paragraph 2 shall terminate (and this option shall cease to be exercisable) prior to the Expiration Date should any of the following provisions become applicable:

(i) Except as otherwise provided in subparagraph (ii) or (iii) below, should Optionee cease to remain in Service while this option is outstanding, then the period for exercising this option shall be reduced to a three (3)-month period commencing with the date of such cessation of Service, but in no event shall this option be exercisable at any time after the Expiration Date. Upon the expiration of such three (3)-month period or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding.

(ii) Should Optionee die while this option is outstanding, then the personal representative of the Optionee's estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the law of descent and distribution shall have the right to exercise this option. Such right shall lapse and this option shall cease to be exercisable upon the earlier of (A) the expiration of the twelve (12) month period measured from the date of Optionee's death or (B) the Expiration Date. Upon the expiration of such twelve (12) month period or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding.

(iii) Should Optionee become permanently disabled and cease by reason thereof to remain in Service while this option is outstanding, then the Optionee shall have a period of twelve (12) months (commencing with the date of such cessation of Service) during which to exercise this option, but in no event shall this option be exercisable at any time after the Expiration Date. Optionee shall be deemed to be permanently disabled if Optionee is unable to engage in any substantial gainful activity for the Corporation or the parent or subsidiary corporation retaining his/her services by reason of any medically determinable physical or mental impairment, which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. Upon the expiration of such limited period of exercisability or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding.

(iv) During the limited period of exercisability applicable under subparagraph (i), (ii) or (iii) above, this option may be exercised for any or all of the Option Shares for which this option is, at the time of the Optionee's cessation of Service, exercisable in accordance with the exercise schedule specified in the Grant Notice and the provisions of Paragraph 6 of this Agreement.

(v) For purposes of this Paragraph 5 and for all other purposes under this Agreement:

A. The Optionee shall be deemed to remain in Service for so long as the Optionee continues to render periodic services to the Corporation or any parent or subsidiary corporation, whether as an Employee, a non-employee member of the board of directors, or an independent contractor or consultant.

B. The Optionee shall be deemed to be an Employee of the Corporation and to continue in the Corporation's employ for so long as the Optionee remains in the employ of the Corporation or one or more of its parent or subsidiary corporations, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

C. A corporation shall be considered to be a subsidiary corporation of the Corporation if it is a member of an unbroken chain of corporations beginning with the Corporation, provided each such corporation in the chain (other than the last corporation) owns, at the time of determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

D. A corporation shall be considered to be a parent corporation of the Corporation if it is a member of an unbroken chain ending with the Corporation, provided each such corporation in the chain (other than the Corporation) owns, at the time of determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

6. EFFECT OF CORPORATE TRANSACTION.

A. Optionee shall automatically vest in full with respect to all of the Option Shares in the event of a Corporate Transaction so that each such option shall, immediately prior to the effective date of the Corporate Transaction, may be exercised for any or all of the Option Shares as fully-vested shares of Common Stock, provided that the Option Shares shall not automatically vest in full if and to the extent: (i) this option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation (or parent thereof) or to be replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof), or (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested option shares at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to those option shares. The determination of option comparability under clause (i) above shall be made by the Plan Administrator, and its determination shall be final, binding and conclusive.

B. To the extent not previously exercised, this Option shall terminate and cease to be exercisable upon the consummation of a Corporate Transaction unless it is expressly assumed by the successor corporation or parent thereof.

C. Option Shares available under any options which are assumed or replaced in the Corporate Transaction and do not otherwise accelerate at that time, shall automatically vest in full in the event the Optionee's Service should subsequently

terminated by reason of an Involuntary Termination within twenty-four (24) months following the effective date of such Corporate Transaction. Any options so accelerated shall remain exercisable for fully-vested shares until the earlier of (i) the expiration of the option term or (ii) the expiration of the one (1)-year period measured from the effective date of the Involuntary Termination.

D. This Agreement shall not in any way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate,

dissolve, liquidate or sell or transfer all or any part of its business or assets.

7. EFFECT OF CHANGE IN CONTROL

In the event of any Change in Control, Optionee shall automatically vest in full with respect to all Option Shares so that each such option shall, immediately prior to the effective date of the Change in Control, be fully exercisable for any or all of Option Shares as fully-vested shares of Common Stock.

8. ADJUSTMENT IN OPTION SHARES.

A. In the event any change is made to the Corporation's outstanding Common Stock by reason of any stock split, stock dividend, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without receipt of consideration, then appropriate adjustments shall be made to (i) the total number of Option Shares subject to this option, (ii) the number of Option Shares for which this option is to be exercisable from and after each installment date specified in the Grant Notice and (iii) the Option Price payable per share in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

B. If this option is to be assumed in connection with a Corporate Transaction described in Paragraph 6 or is otherwise to remain outstanding, then this option shall be appropriately adjusted, immediately after such Corporate Transaction, to apply and pertain to the number and class of securities which would have been issuable to the Optionee in the consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Option Price payable per share, provided the aggregate Option Price payable hereunder shall remain the same.

9. PRIVILEGE OF STOCK OWNERSHIP. The holder of this option shall not have any of the rights of a shareholder with respect to the Option Shares until such individual shall have exercised the option and paid the Option Price.

10. MANNER OF EXERCISING OPTION.

A. In order to exercise this option with respect to all or any part of the Option Shares for which this option is at the time exercisable, Optionee (or in the case of exercise after Optionee's death, the Optionee's executor, administrator, heir or legatee, as the case may be) must take the following actions:

(i) Execute and deliver to the Secretary of the Corporation a stock purchase agreement (the "Purchase Agreement") in substantially the form of Exhibit B to the Grant Notice.

(ii) Pay the aggregate Option Price for the purchased shares in one or more forms approved under the Plan.

(iii) Furnish to the Corporation appropriate documentation that the person or persons exercising the option, if other than Optionee, have the right to exercise this option.

B. For purposes of this Agreement, the Exercise Date shall be the date on which the executed Purchase Agreement shall have been delivered to the Corporation, and the fair market value of a share of Common Stock on any relevant date shall be determined in accordance with subparagraphs (i) through (iii) below:

(i) If the Common Stock is not at the time listed or admitted to trading on any stock exchange but is traded on the NASDAQ National Market System, the fair market value shall be the closing selling price of one share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers through its NASDAQ system or any successor system. If there is no closing selling price for the Common Stock on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of fair market value.

(ii) If the Common Stock is at the time listed or admitted to trading on any stock exchange, then the fair market value shall be the closing selling price per share of Common Stock on the date in question on the stock exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of Common

Stock on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

(iii) If the Common Stock at the time is neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market, or if the Plan Administrator determines that the value determined pursuant to subparagraphs (i) and (ii) above does not accurately reflect the fair market value of the Common Stock, then such fair market value shall be determined by the Plan Administrator after taking into account such factors as the Plan Administrator shall deem appropriate.

C. As soon after the Exercise Date as practical, the Corporation shall mail or deliver to Optionee or to the other person or persons exercising this option a certificate or certificates representing the shares so purchased and paid for, with the appropriate legends affixed thereto.

D. In no event may this option be exercised for any fractional shares.

11. COMPLIANCE WITH LAWS AND REGULATIONS.

A. The exercise of this option and the issuance of Option Shares upon such exercise shall be subject to compliance by the Corporation and the Optionee with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange on which shares of the Corporation's Common Stock may be listed at the time of such exercise and issuance.

B. In connection with the exercise of this option, Optionee shall execute and deliver to the Corporation such representations in writing as may be requested by the Corporation in order for it to comply with the applicable requirements of Federal and State securities laws.

12. SUCCESSORS AND ASSIGNS. Except to the extent otherwise provided in Paragraph 3 or 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Optionee and the successors and assigns of the Corporation.

13. LIABILITY OF CORPORATION.

A. If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of shares of Common Stock which may without shareholder approval be issued under the Plan, then this option shall be void with respect to such excess shares, unless shareholder approval of an amendment sufficiently increasing the number of shares of Common Stock issuable under the Plan is obtained in accordance with the provisions of Article IV, Section 3, of the Plan.

B. The inability of the Corporation to obtain approval from any regulatory body having authority deemed by the Corporation to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option shall relieve the Corporation of any liability with respect to the non-issuance or sale of the Common Stock as to which such approval shall not have been obtained. The Corporation, however, shall use its best efforts to obtain all such approvals.

14. NOTICES. Any notice required to be given or delivered to the Corporation under the terms of this Agreement shall be in writing and addressed to the Corporation in care of the Corporate Secretary at its principal corporate offices. Any notice required to be given or delivered to Optionee shall be in writing and addressed to Optionee at the address indicated below Optionee's signature line on the Grant Notice. All notices shall be deemed to have been given or delivered upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

15. LOANS. The Plan Administrator may, in its absolute discretion and without any obligation to do so, assist the Optionee in the exercise of this option by (i) authorizing the extension of a loan to the Optionee from the Corporation or (ii) permitting

the Optionee to pay the option price for the purchased Common Stock in installments over a period of years. The terms of any such loan or installment method of payment (including the interest rate, the requirements for collateral and the terms of repayment) shall be established by the Plan

Administrator in its sole discretion.

16. CONSTRUCTION. This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the express terms and provisions of the Plan. All decisions of the Plan Administrator with respect to any question or issue arising under the Plan or this Agreement shall be conclusive and binding on all persons having an interest in this option.

17. GOVERNING LAW. The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Delaware without resort to that State's conflict-of-laws rules.

18. SHAREHOLDER APPROVAL. The grant of this option is subject to approval of the Plan by the Corporation's shareholders within twelve (12) months after the adoption of the Plan by the Board of Directors. NOTWITHSTANDING ANY PROVISION OF THIS AGREEMENT TO THE CONTRARY, THIS OPTION MAY NOT BE EXERCISED IN WHOLE OR IN PART UNTIL SUCH SHAREHOLDER APPROVAL IS OBTAINED. In the event that such shareholder approval is not obtained, then this option shall thereupon terminate in its entirety and the Optionee shall have no further rights to acquire any Option Shares hereunder.

19. ADDITIONAL TERMS APPLICABLE TO AN INCENTIVE STOCK OPTION. In the event this option is designated an incentive stock option in the Grant Notice, the following terms and conditions shall also apply to the grant:

A. This option shall cease to qualify for favorable tax treatment as an incentive stock option under the Federal tax laws if (and to the extent) this option is exercised for one or more Option Shares: (i) more than three (3) months after the date the Optionee ceases to be an Employee for any reason other than death or permanent disability (as defined in Paragraph 5) or (ii) more than one (1) year after the date the Optionee ceases to be an Employee by reason of permanent disability.

B. Should this option be designated as immediately exercisable in the Grant Notice, then this option shall not become exercisable in the calendar year in which granted if (and to the extent) the aggregate fair market value (determined at the Grant Date) of the Corporation's Common Stock for which this option would otherwise first become exercisable in such calendar year would, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Corporation's Common Stock for which this option or one or more other incentive stock options granted to the Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Corporation or its parent or subsidiary corporations) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. To the extent the exercisability of this option is deferred by reason of the foregoing limitation, the deferred portion will first become exercisable in the first calendar year or years thereafter in which the One Hundred Thousand Dollar ($100,000) limitation of this Paragraph 18.B would not be contravened.

C. Should this option be designated as exercisable in installments in the Grant Notice, then no installment under this option (whether annual or monthly) shall qualify for favorable tax treatment as an incentive stock option under the Federal tax laws if (and to the extent) the aggregate fair market value (determined at the Grant Date) of the Corporation's Common Stock for which such installment first becomes exercisable hereunder will, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Corporation's Common Stock for which one or more other incentive stock options granted to the Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Corporation or any parent or subsidiary corporation) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate.

20. WITHHOLDING. Optionee hereby agrees to make appropriate arrangements with the Corporation or parent or subsidiary corporation employing Optionee for the satisfaction of all Federal, State or local income tax withholding requirements and Federal social security employee tax requirements applicable to the exercise of this option.

EXHIBIT C

INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made and entered into this ____ day of _____, 19__ between DIGIRAD CORPORATION., a Delaware corporation ("Corporation"), and _____ ("Director").

RECITALS:

A. Director, a member of the Board of Directors of Corporation, performs a valuable service in such capacity for Corporation; and

B. The stockholders of Corporation have adopted Bylaws (the "Bylaws") providing for the indemnification of the officers, directors, agents and employees of Corporation to the maximum extent authorized by Section 145 of the Delaware General Corporation Law, as amended (the "Law"); and

C. The Bylaws and the Law, by their non-exclusive nature, permit contracts between Corporation and the members of its Board of Directors with respect to indemnification of such directors; and

D. In accordance with the authorization as provided by the Law, Corporation may from time to time purchase and maintain a policy or policies of Directors and Officers Liability Insurance ("D & O Insurance"), covering certain liabilities which may be incurred by its directors and officers in the performance of services as directors and officers of Corporation; and

E. As a result of developments affecting the terms, scope and availability of D & O Insurance there exists general uncertainty as to the extent and overall desirability of protection afforded members of the Board of Directors by such D & O Insurance, if any, and by statutory and bylaw indemnification provisions; and

F. In order to induce Director to continue to serve as a member of the Board of Directors of Corporation, Corporation has determined and agreed to enter into this contract with Director;

NOW, THEREFORE, in consideration of Director's continued service as a director after the date hereof, the parties hereto agree as follows:

1. INDEMNITY OF DIRECTOR. Corporation hereby agrees to hold harmless and indemnify Director to the fullest extent authorized or permitted by the provisions of the Law, as may be amended from time to time.

2. ADDITIONAL INDEMNITY. Subject only to the exclusions set forth in Section 3 hereof, Corporation hereby further agrees to hold harmless and indemnify Director:

(a) against any and all expenses (including attorneys' fees), witness fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by Director in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of Corporation) to which Director is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that Director is, was or at any time becomes a director, officer, employee or agent of Corporation, or is or was serving or at any time serves at the request of Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise; and

(b) otherwise to the fullest extent as may be provided to Director by Corporation under the non-exclusivity provisions of the Bylaws of Corporation and the Law.

3. LIMITATIONS ON ADDITIONAL INDEMNITY. No indemnity pursuant to Section 2 hereof shall be paid by Corporation:

(a) except to the extent the aggregate of losses to be indemnified thereunder exceeds the sum of such losses for which the Director is indemnified pursuant to Section 1 hereof or pursuant to any D & O Insurance purchased and maintained by Corporation;

(b) in respect of remuneration paid to Director if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;

(c) on account of any action, suit or proceeding in which

judgment is rendered against Director for an accounting of profits made from the purchase or sale by Director of securities of Corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law;

(d) on account of Director's conduct which is finally adjudged to have been knowingly fraudulent or deliberately dishonest, or to constitute willful misconduct;

(e) on account of Director's conduct which is the subject of an action, suit or proceeding described in Section 7(c)(ii) hereof;

(f) on account of or arising in response to any action, suit or proceeding (other than an action, suit or proceeding referred to in Section 8(b) hereof) initiated by Director or any of Director's affiliates against Corporation or any officer, director or stockholder of Corporation unless such action, suit or proceeding was authorized in the specific case by action of the Board of Directors of Corporation;

(g) on account of any action, suit or proceeding to the extent that Director is a plaintiff, a counter-complainant or a cross-complainant therein (other than an action, suit or proceeding permitted by Section 3(f) hereof); or

(h) if a final decision by a Court having jurisdiction in the matter shall determine that such indemnification is not lawful (and, in this respect, both Corporation and Director have been

advised that the Securities and Exchange Commission believes that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication).

4. CONTRIBUTION. If the indemnification provided in Sections 1 and 2 is unavailable and may not be paid to Director for any reason other than those set forth in paragraphs (b) through (g) of Section 3, then in respect of any threatened, pending or completed action, suit or proceeding in which Corporation is or is alleged to be jointly liable with Director (or would be if joined in such action, suit or proceeding), Corporation shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Director in such proportion as is appropriate to reflect (i) the relative benefits received by Corporation on the one hand and Director on the other hand from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of Corporation on the one hand and of Director on the other hand in connection with the events which resulted in such expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of Corporation on the one hand and of Director on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines or settlement amounts. Corporation agrees that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

5. CONTINUATION OF OBLIGATIONS. All agreements and obligations of Corporation contained herein shall continue during the period Director is a director, officer, employee or agent of Corporation (or is or was serving at the request of Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise) and shall continue thereafter so long as Director shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that Director was serving Corporation or such other entity in any capacity referred to herein.

6. NOTIFICATION AND DEFENSE OF CLAIM. Not later than thirty (30) days after receipt by Director of notice of the commencement of any action, suit or proceeding, Director will, if a claim in respect thereof is to be made against Corporation under this Agreement, notify Corporation of the commencement thereof; but the omission so to notify Corporation will not relieve it from any liability which it may have to Director otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Director notifies Corporation of the commencement thereof:

(a) Corporation will be entitled to participate therein at its own expense;

(b) except as otherwise provided below, to the extent that it may wish, Corporation jointly with any other indemnifying party similarly

notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Director. After notice from Corporation to Director of its election to assume the defense thereof, Corporation will not be liable to Director

under this Agreement for any legal or other expenses subsequently incurred by Director in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Director shall have the right to employ his own counsel in such action, suit or proceeding but the fees and expenses of such counsel incurred after notice from Corporation of its assumption of the defense thereof shall be at the expense of Director unless (i) the employment of counsel by Director has been authorized by Corporation, (ii) Director shall have reasonably concluded that there may be a conflict of interest between Corporation and Director in the conduct of the defense of such action or (iii) Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of Director's separate counsel shall be at the expense of Corporation. Corporation shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of Corporation or as to which Director shall have made the conclusion provided for in (ii) above; and

(c) Corporation shall not be liable to indemnify Director under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. Corporation shall be permitted to settle any action except that it shall not settle any action or claim in any manner which would impose any penalty, out-of-pocket liability, or limitation on Director without Director's written consent. Neither Corporation nor Director will unreasonably withhold its or his consent to any proposed settlement.

7. ADVANCEMENT AND REPAYMENT OF EXPENSES.

(a) In the event that Director employs his own counsel pursuant to Section 6(b)(i) through (iii) above, Corporation shall advance to Director, prior to any final disposition of any threatened or pending action, suit or proceeding, whether civil, criminal, administrative or investigative, any and all reasonable expenses (including legal fees and expenses) incurred in investigating or defending any such action, suit or proceeding within ten (10) days after receiving copies of invoices presented to Director for such expenses.

(b) Director agrees that Director will reimburse Corporation for all reasonable expenses paid by Corporation in defending any civil or criminal action, suit or proceeding against Director in the event and only to the extent it shall be ultimately determined by a final judicial decision (from which there is no right of appeal) that Director is not entitled, under the provisions of the Law, the Bylaws, this Agreement or otherwise, to be indemnified by Corporation for such expenses.

(c) Notwithstanding the foregoing, Corporation shall not be required to advance such expenses to Director if Director (i) commences any action, suit or proceeding as a plaintiff unless such advance is specifically approved by a majority of the Board of Directors or (ii) is a party to an action, suit or proceeding brought by Corporation and approved by a majority of the Board which alleges willful misappropriation of corporate assets by Director, disclosure of confidential information in violation of Director's fiduciary or contractual obligations to Corporation, or any other willful and deliberate breach in bad faith of Director's duty to Corporation or its shareholders.

8. Enforcement.

(a) Corporation expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on Corporation hereby in order to induce Director to continue as a director of Corporation, and acknowledges that Director is relying upon this Agreement in continuing in such capacity.

(b) In the event Director is required to bring any action to enforce rights or to collect moneys due under this Agreement and is successful in such action, the Corporation shall reimburse Director for all Director's reasonable fees and expenses (including attorneys' fees) in bringing and pursuing such action.

9. SUBROGATION. In the event of payment under this agreement, Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Director, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable

Corporation effectively to bring suit to enforce such rights.

10. NON-EXCLUSIVITY OF RIGHTS. The rights conferred on Director by this Agreement shall not be exclusive of any other right which Director may have or hereafter acquire under any statute, provision of Corporation's Certificate of Incorporation or Bylaws, agreement, vote of stockholders or directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding office.

11. SURVIVAL OF RIGHTS. The rights conferred on Director by this Agreement shall continue after Director has ceased to be a director, officer, employee or other agent of Corporation or such other entity.

12. SEPARABILITY. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any or all of the provisions hereof shall be held to be invalid or unenforceable to any extent for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof or the obligation of the Corporation to indemnify the Director to the full extent provided by the Bylaws or the Law, and the affected provision shall be construed and enforced so as to effectuate the parties' intent to the maximum extent possible.

13. GOVERNING LAW. This Agreement shall be interpreted and enforced in accordance with the internal laws of the State of Delaware.

14. BINDING EFFECT. This Agreement shall be binding upon Director and upon Corporation, its successors and assigns, and shall inure to the benefit of Director, his heirs, executors, administrators, personal representatives and assigns and to the benefit of Corporation, its successors and assigns.

15. AMENDMENT AND TERMINATION. No amendment, modification, termination or cancellation of this Agreement shall be effective unless set forth in a writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

DIRECTOR:	DIGIRAD CORPORATION
	By:
---	---
(Signature)	(Signature)
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Print Name	Print Name and Title

EXHIBIT C

AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

Filed separately as an Exhibit to this Registration Statement

EXHIBIT D

FORM OF OPINION

August 23, 1002 [LETTERHEAD]

To the Investors Listed on the
Schedule of Investors to the
Digirad Corporation Series F Stock Purchase Agreement
dated August 23, 2001

Ladies and Gentlemen:

We have acted as counsel for Digirad Corporation, a Delaware corporation (the "Company"), in connection with the issuance and sale of shares of its Series F Preferred Stock pursuant to the Digirad Corporation Series F Stock Purchase Agreement dated August 23, 2001 (the "Stock Purchase Agreement") among the Company and you. This opinion letter is being rendered to you pursuant to Section 4.4 of the Stock Purchase Agreement in connection with the Closing of the sale of the Series F Preferred Stock. Capitalized terms not otherwise defined in this opinion letter have the meanings given them in the Stock Purchase Agreement.

In connection with the opinions expressed herein, we have made such examination of matters of law and of fact as we considered appropriate or advisable for purposes hereof. As to matters of fact material to the opinions expressed herein, we have relied upon the representations and warranties as to factual matters contained in and made by the Company pursuant to the Stock Purchase Agreement and upon certificates and statements of government officials and of officers of the Company. With respect to our opinion in paragraph 3 regarding issued and outstanding capital stock of the Company, such opinion is based solely on our review of a certificate of the Company and of the Company's stock records and resolutions of the Company's Board of Directors relating to such issuances. We have also examined originals or copies of such corporate documents or records of the Company as we have considered appropriate for the opinions expressed herein. We have assumed for the purposes of this opinion letter the genuineness of all signatures, the legal capacity of natural persons, the authenticity of the documents submitted to us as originals, the conformity to the original documents of all documents submitted to us as certified, facsimile or photostatic copies, and the authenticity of the originals of such copies.

In rendering this opinion letter we have also assumed: (A) that the Stock Purchase Agreement and the Amended and Restated Investors' Rights Agreement (the "Investors' Rights Agreement") (collectively, the "Transaction Agreements") have been duly and validly executed and delivered by you or on your behalf, that each of you has the power to enter into and perform all your obligations thereunder and has taken any and all necessary corporate, partnership or other relevant action to authorize the Transaction Agreements, and that the Transaction Agreements constitute valid, legal, binding and enforceable obligations upon you; (B) that the representations and warranties made in the Stock Purchase Agreement by you are true and

correct; (C) that any wire transfers, drafts or checks tendered by you will be honored; (D) if you are a corporation or other entity, that you have filed any required state franchise, income or similar tax returns and have paid any required state franchise, income or similar taxes; and (E) if you are a small business investment company subject to the Small Business Investment Act of 1958, as amended, that you have complied with the provisions of such Act and the regulations promulgated thereunder (the "SBIA Laws").

As used in this opinion letter, the expression "we are not aware" or the phrase "to our knowledge," or any similar expression or phrase with respect to our knowledge of matters of fact, means as to matters of fact that, based on the actual knowledge of individual attorneys within the firm principally responsible for handling current matters for the Company (and not including any constructive or imputed notice of any information), and after an examination of documents referred to herein and after inquiries of certain officers of the Company, no facts have been disclosed to us that have caused us to conclude that the opinions expressed are factually incorrect; but beyond that we have made no factual investigation for the purposes of rendering this opinion letter. Specifically, but without limitation, we have not searched the dockets of any courts and we have made no inquiries of securities holders or employees of the Company, other than such officers. Nothing in this opinion or any inference from the fact that we represent the Company shall be construed to imply that we are opining or representing to you that the Transaction Agreements do not contain any untrue statement of a material fact or do not omit to state a material fact necessary to make the statements therein not misleading.

This opinion letter relates solely to the laws of the State of California, the General Corporation Law of the State of Delaware and the federal law of the United States and we express no opinion with respect to the effect or application of any other laws. Special rulings of authorities administering such laws or opinions of other counsel have not been sought or obtained.

Based upon our examination of and reliance upon the foregoing and subject to the limitations, exceptions, qualifications and assumptions set forth below, we are of the opinion that as of the date hereof:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, and the Company has the requisite corporate power and authority to own its properties and to conduct its business as, to our knowledge, it is presently conducted. The Company is qualified to do business as a foreign corporation in the states of California and Florida.

2. The Company has the requisite corporate power and authority to execute, deliver and perform the Transaction Agreements. Each of the Transaction Agreements has been duly and validly authorized by the Company, duly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company, enforceable by you against the Company in accordance with its terms.

3. The capitalization of the Company is as follows:

(a) PREFERRED STOCK. The Company has 30,321,108 authorized shares of Preferred Stock, par value $0.001 per share (the "Preferred Stock"), of which (i) 2,250,000 shares have been designated Series A Preferred Stock, all of which are currently issued and outstanding, (ii) 2,281,000 shares have been designated Series B Preferred Stock, all of which are currently issued and outstanding, (iii) 4,800,000 shares have been designated Series C Preferred Stock, all of which are currently issued and outstanding, (iv) 8,668,140 shares have been designated Series D Preferred Stock, all of which are currently issued and outstanding, (v) 9,583,506 shares have been designated Series E Preferred Stock, 9,130,428 shares of which are currently issued and outstanding, and (vi) 2,738,462 shares have been designated Series F Preferred Stock and some or all or which may be purchased pursuant to the Stock Purchase Agreement. Such shares of outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock have been duly authorized and validly issued, are nonassessable and fully paid. The shares of Series F Preferred Stock to be purchased at the Closing have been duly authorized and, upon purchase at the Closing pursuant to the terms of the Stock Purchase Agreement, will be validly issued, nonassessable and fully paid. The respective rights, privileges, restrictions and preferences of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock are as stated in the Company's Amended and Restated Certificate of Incorporation attached as Exhibit A to the Stock Purchase Agreement.

(b) COMMON STOCK. The Company has 42,738,462 authorized shares of Common Stock, par value $0.001 per share (the "Common Stock"), 4,526,474 shares of which are currently issued and outstanding. Such 4,526,474 shares of outstanding Common Stock have been duly authorized and validly issued, are nonassessable, and, to our knowledge, are fully paid.

(c) The Common Stock issuable upon conversion of the Series F Preferred Stock to be purchased at the Closing has been duly and validly reserved for issuance and, when and if issued upon such conversion in accordance with the Company's Amended and Restated Certificate of Incorporation, will be validly issued, fully paid and nonassessable.

(d) There are no statutory or charter preemptive rights nor, to our knowledge, are there any options, warrants, conversion privileges or other rights (or agreements for any such rights) outstanding to purchase or otherwise obtain from the Company any of the Company's equity securities, except for (i) the conversion privileges of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, (ii) outstanding options to purchase 5,952,426 shares of Common Stock pursuant to options granted to employees, directors, consultants or advisors of the Company under stock option and restricted stock purchase agreements approved by the Board of Directors , (iii) outstanding warrants to purchase 403,078 shares of Series E Preferred Stock, (iv)

warrants to purchase 100,500 shares of Common Stock, (v) the right of first offer as set forth in Section 1.2 of the Investors' Rights Agreement, (vi) the right to receive up to 150,000 shares of the Company's Common Stock pursuant to that certain Consulting Agreement by and between Digirad Imaging

Systems, Inc. and Jeffrey Mandler dated September 9, 2000, (vii) the right to receive up to 100,000 shares of the Company's Common Stock pursuant to that certain Asset Purchase Agreement by and among the Company, Orion Imaging Systems, Inc., Florida Cardiology and Nuclear Medicine Group, P.A. and Dr. John Kilgore, dated August 31, 2000, as amended (the "Florida Cardiology Agreement"); (viii) the right to receive an indeterminate number of shares of the Company's Common or Preferred Stock pursuant to the Florida Cardiology Agreement; (ix) the right to receive a warrant to purchase up to 100,000 shares of the Company's Common Stock pursuant to that certain Consulting Agreement with McAdams and Witham Consulting ("MWC") dated July 31 2001 (the "MWC Agreement"); (x) the right to receive warrants to purchase up to 100,000 shares of the Company's Common Stock pursuant to the MWC Agreement; and (xi) the right to receive warrants to purchase an indeterminate number of shares of the Company's Common Stock pursuant to the MWC Agreement.

4. Other than in connection with any securities laws (with respect to which we direct you to paragraph 6 below), the Company's execution and delivery of, and its performance and compliance as of the date hereof with the terms of, the Transaction Agreements (including the issuance of the Series F Preferred Stock and the Common Stock issuable upon conversion thereof), do not violate any provision of any federal, Delaware corporate or California law, rule or regulation applicable to the Company or any provision of the Company's Amended and Restated Certificate of Incorporation or Bylaws and do not conflict with or constitute a default under the provisions of any judgment, writ, decree or order specifically identified in the Schedule of Exceptions or the material provisions of any of the material agreements specifically identified in the Schedule of Exceptions.

5. Other than in connection with any securities laws (with respect to which we direct you to paragraph 6 below), all consents, approvals, permits, orders or authorizations of, and all qualifications by and registrations with, any federal or Delaware corporate or California state governmental authority on the part of the Company required in connection with the execution and delivery of the Stock Purchase Agreement and consummation at the Closing of the transactions contemplated by the Stock Purchase Agreement have been obtained, and are effective, and we are not aware of any proceedings, or written threat of any proceedings, that question the validity thereof.

6. On the assumption that the representations of the Investors in the Stock Purchase Agreement are correct, the offer and sale of the Series F Preferred Stock to the Investors pursuant to the terms of the Stock Purchase Agreement are exempt from the registration requirement of Section 5 of the Securities Act of 1933, as amended, and from the qualification requirement of the California Corporate Securities Law of 1968, as amended, and, under such securities laws as they presently exist, the issuance of Common Stock to you upon conversion of

the Series F Preferred Stock would also be exempt from such registration and qualification requirements.

7. We are not aware that there is any action, proceeding or governmental investigation pending, or threatened in writing, against the Company which questions the validity of the Transaction Agreements or the right of the Company to enter into the Transaction Agreements nor are we aware of, except as disclosed in Section 2.12 of the Schedule of Exceptions, any litigation pending, or threatened in writing, against the Company by reason of the proposed activities of the Company, the past employment relationships of its officers, directors or employees, or negotiations by the Company with possible investors in the Company or its business.

Our opinions expressed above are specifically subject to the following limitations, exceptions, qualifications and assumptions:

A. The legality, validity, binding nature and enforceability of the Company's obligations under the Transaction Agreements may be subject to or limited by (1) bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer and other similar laws affecting the rights of creditors generally; (2) general principles of equity (whether relief is sought in a proceeding at law or in equity), including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and the discretion of any court of competent jurisdiction in awarding specific performance or injunctive relief and other equitable remedies; and (3) without limiting the generality of the foregoing, (a) principles requiring the consideration of the impracticability or impossibility of performance of the Company's obligations at the time of the attempted enforcement of such obligations, and (b) the effect of California court decisions and statutes which indicate that provisions of the Transaction Agreements which permit any of you to take action or make determinations may be subject to a requirement that such action be taken or such determinations be made on a reasonable

basis in good faith or that it be shown that such action is reasonably necessary for your protection.

B. We express no opinion as to the Company's or this transaction's compliance or noncompliance with applicable federal or state antifraud or antitrust statutes, laws, rules and regulations or the Exon-Florio Amendment.

C. We express no opinion concerning the past, present or future fair market value of any securities.

D. We express no opinion as to the enforceability under certain circumstances of any provisions indemnifying a party against, or requiring contributions toward, that party's liability for its own wrongful or negligent acts, or where indemnification or contribution is contrary to public policy or prohibited by law. In this regard, we advise you that in the opinion of the Securities and Exchange Commission, provisions regarding indemnification of directors, officers

and controlling persons of an issuer against liabilities arising under the Securities Act of 1933, as amended, are against public policy and are therefore unenforceable.

E. We express no opinion as to the enforceability under certain circumstances of any provisions prohibiting waivers of any terms of the Transaction Agreements other than in writing, or prohibiting oral modifications thereof or modification by course of dealing. In addition, our opinions are subject to the effect of judicial decisions which may permit the introduction of extrinsic evidence to interpret the terms of written contracts.

F. We express no opinion as to the effect of Section 1670.5 of the California Civil Code or any other California law, federal law or equitable principle which provides that a court may refuse to enforce, or may limit the application of, a contract or any clause thereof which the court finds to have been unconscionable at the time it was made or contrary to public policy.

G. We express no opinion as to the effect of Sections 1203 and 1102(3) of the California Uniform Commercial Code or any other California law, federal law or equitable principle, providing for an obligation of good faith in the performance or enforcement of contracts and prohibiting disclaimer of such obligation.

H. Our opinions in paragraphs 4 and 5 above are limited to laws and regulations normally applicable to transactions of the type contemplated in the Transaction Agreements and do not extend to licenses, permits and approvals necessary for the conduct of the Company's business. In addition and without limiting the previous sentence, we express no opinion herein with respect to the effect of any land use, safety, hazardous material, environmental or similar law, or any local or regional law. Further, we express no opinion as to the effect of or compliance with any state or federal laws or regulations applicable to the transactions contemplated by the Transaction Agreements because of the nature of the business of any party thereto other than the Company. Also, we express no opinion with respect to any patent, copyright, trademark or other intellectual property matter, or as to the statutes, regulations, treaties or common laws of any nation, state or jurisdiction with regard thereto.

I. In connection with our opinion in paragraph 4 relating to the agreements listed on the Schedule of Exceptions, we have not reviewed, and express no opinion on, (i) financial covenants or similar provisions requiring financial calculations or determinations to ascertain whether there is any such conflict or (ii) provisions relating to the occurrence of a "material adverse event" or words of similar import. In addition, our opinions are subject to the effect of judicial decisions which may permit the introduction of extrinsic evidence to interpret the terms of written contracts. Moreover, to the extent that any of the agreements listed on the Schedule of Exceptions are governed by the laws of any jurisdiction other than the State of California our opinion relating to those agreements is based solely upon the plain meaning of their language without regard to interpretation or construction that might be indicated by the laws governing those agreements.

J. We express no opinion as to your compliance with any federal or state law relating to your legal or regulatory status or the nature of your business.

K. We express no opinion as to the compliance of the Company or the sale of the Series F Preferred Stock to the Investors with the provisions of the SBIA Laws, except to the extent that such compliance relates to the sale of Series F Preferred Stock to Investors which are expressly identified in the Stock Purchase Agreement as being small business investment companies.

L. We express no opinion as to the effect on our opinion in paragraph 6 above of any subsequent public offering of securities of the Company.

M. We express no opinion as to the effect of subsequent issuances of securities of the Company, to the extent that further issuances which may be integrated with the Closing may include purchasers that do not meet the definition of "accredited investors" under Rule 501 of Regulation D and equivalent definitions under state securities or "blue sky" laws and to the extent that notwithstanding its reservation of shares the Company may issue so many shares of Common Stock that there are not enough remaining authorized but unissued shares of Common Stock for the conversion of the Series F Preferred Stock (or may issue securities which by antidilution adjustment so reduce the Conversion Price (as such term is defined in the Company's Amended and Restated Certificate of Incorporation) of the Series F Preferred Stock and/or other Company derivative securities that the outstanding shares of the Series F Preferred Stock become convertible for more shares of Common Stock than remain authorized but unissued).

N. We express no opinion as to:

(1) The effect on the redemption and liquidation provisions of the Amended and Restated Certificate of Incorporation of applicable state law, federal law or equitable principles restricting in certain circumstances distributions by a corporation to its shareholders, relating to dissenters' rights or relating to involuntary dissolution;

(2) The enforceability under certain circumstances of provisions to the effect that rights or remedies may be exercised without notice, or that failure to exercise or delay in exercising rights or remedies will not operate as a waiver of any such right or remedy;

(3) Any provision providing for the exclusive jurisdiction of a particular court or purporting to waive rights to trial by jury, service of process or objections to the laying of venue or to forum on the basis of forum NON CONVENIENS, in connection with any litigation arising out of or pertaining to the Transaction Agreements;

(4) Section 2.4 of the Stock Purchase Agreement and Section 5.2 of the Investors' Rights Agreement to the extent that each purports to exclude conflict of law principles under California law;

(5) The effect of any California or Delaware law, federal law or equitable principles which limit the amount of attorneys' fees that can be recovered under certain circumstances.

This opinion letter is rendered as of the date first written above solely for your benefit in connection with the Stock Purchase Agreement and may not be delivered to, quoted or relied upon by any person other than you, or for any other purpose, without our prior written consent. Our opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters relating to the Company. We assume no obligation to advise you of facts, circumstances, events or developments which hereafter may be brought to our attention and which may alter, affect or modify the opinions expressed herein.

Very truly yours,

BROBECK PHLEGER & HARRISON LLP

EXHIBIT 10.19

DIGIRAD CORPORATION

AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

August 23, 2001

INVESTORS' RIGHTS AGREEMENT

This AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT (this "Agreement") is made as of the 23rd day of August, 2001, by and between Digirad Corporation, a Delaware corporation (the "Company"), holders of a majority of the shares held by the founders of the Company identified on SCHEDULE A attached hereto under the heading "Founders" (the "Founders"), holders of a majority of the Preferred Stock of the Company identified on SCHEDULE A attached hereto under the heading "Existing Investors" (the "Existing Investors") and each of the purchasers of the Series F Preferred Stock of the Company identified on SCHEDULE A attached hereto under the heading "New Investors" and Silicon Valley Bank (collectively, the "New Investors"). The Existing Investors and the New Investors are collectively referred to herein as, individually, an "Investor" and collectively, the "Investors."

RECITALS

A. The Company has previously sold and issued shares of its capital stock to the Founders and to the Existing Investors, pursuant to which the Founders and the Existing Investors have become parties to that certain Investors' Rights Agreement dated November 10, 2000, as amended (the "Investors' Rights Agreement");

B. The Company desires to sell and issue shares of its Series F Preferred Stock to the New Investors pursuant to that certain Series F Preferred Stock Purchase Agreement of even date herewith (the "Purchase Agreement"); and

C. As an inducement to the New Investors to purchase shares of its Series F Preferred Stock, the Company, the Founders and the Existing Investors all desire to completely amend and restate the Investors' Rights Agreement pursuant to Section 5.7 with respect to the matters set forth therein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants contained herein it is hereby agreed:

1. COVENANTS OF THE COMPANY.

1.1 BOARD EXPENSES. The Company shall reimburse the Board members for all reasonable out-of-pocket travel and expenses incurred by such directors in attending the meetings of the Board and committees of the Board of which any such director is a member.

1.2 RIGHT OF FIRST OFFER. Subject to the terms and conditions specified in this Section 1.2, the Company hereby grants to Investors, and to Jack F. Butler, Sr. and Clinton L. Lingren (and their respective transferees) (collectively, the "Founders" and each an "Offeree"), a right of first offer with respect to future sales by the Company of its Shares (as hereinafter defined). Investors shall be entitled to apportion the right of the first offer hereby granted among themselves and their partners and affiliates in such proportions as they deem appropriate.

Each time the Company proposes to offer any shares of, or securities convertible into or exercisable for, any class of its capital stock (the "Shares"), the Company shall first make an offering of such Shares to each Offeree in accordance with the following provisions:

(a) The Company shall deliver a notice by certified mail ("Notice") to the Offeree stating (i) its bona fide intention to offer or issue such Shares, (ii) the number of such Shares to be offered, and (iii)

the price, if any, for which it proposes to offer such Shares.

(b) Within 20 calendar days after receipt of the Notice, the Offeree may elect to purchase or obtain, at the price and on the terms specified in the Notice, up to that portion of such Shares which equals the proportion that the number of shares of Common Stock issued and held, or issuable upon conversion of the Preferred Stock then held, by such Offeree bears to the total number of shares of outstanding Common Stock and Common Stock issuable upon conversion of the Preferred Stock then outstanding. The Company shall promptly in writing, inform each Offeree which purchases all the shares available to it (a "Fully Exercising Offeree") of any other Offeree's failure to do likewise. During the 10-day period commencing after receipt of such information, each Fully Exercising Offeree shall be entitled to obtain that portion of the shares subject to such right of first refusal and not subscribed for by the Offerees which is equal to the proportion that the number of shares of Common Stock issued and held , or issuable upon conversion of the Preferred Stock then held, by such Fully Exercising Offeree bears to the total number of shares of Common Stock issued and held, or issuable upon conversion of the Preferred Stock then held, by all Fully Exercising Offerees who wish to purchase some of the unsubscribed shares.

(c) If all such Shares referred to in the Notice are not elected to be obtained as provided in subsection 1.2(b) hereof, the Company may, during the 60-day period following the expiration of the period provided in subsection 1.2(b) hereof, offer the remaining unsubscribed Shares to any person or persons at a price not less than that, and upon terms no more favorable to the offeree than those, specified in the Notice. If the Company does not enter into an agreement for the sale of the Shares within such period, or if such agreement is not consummated within 60 days of the execution thereof, the right provided hereunder shall be deemed to be revived and such Shares shall not be offered unless first reoffered to the Offerees in accordance herewith.

(d) The right of first offer granted in this Section 1.2 shall not be applicable (i) to the issuance or sale of shares of Common Stock, or options granted to employees, directors, consultants or advisors of the Company under stock option and restricted stock purchase agreements approved by the Board of Directors commencing as of May 1994 (each, an "Option, and collectively, "Options") or warrants therefor, to employees, directors, consultants or advisors of the Company, provided each such person executes an agreement relating to such issuance or sale in substantially the form as approved by the Company's Board of Directors, (ii) to the issuance and sale of the Company's securities to a corporation, partnership, educational institution or other entity in connection with a research and development partnership or licensing or other collaborative arrangement between the Company and such institution or entity, (iii) to or after consummation of a bona fide, firmly underwritten public offering of shares of the Company's Common Stock registered under the Securities Act of 1933, as amended (the "Securities Act"), which results in gross proceeds of at least $15,000,000 at a price per share of

at least $7.50 (adjusted for any subsequent stock splits, stock dividends or other recapitalizations), (iv) to the issuance of securities pursuant to the conversion or exercise of convertible or exercisable securities, (v) to the issuance of securities in connection with a bona fide business acquisition of or by the Company, whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise, and (vi) to the issuance of securities in connection with credit agreements with equipment lessors or commercial lenders.

(e) Any term of this Section 1.2 may be amended and the observance of any term of this Section 1.2 may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of (i) the Company, (ii) the holders of a majority of the shares held by the Founders, and (iii) the Investors holding of a majority of the Common Stock issued or issuable upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, voting as a single class. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any securities of the Company at the time outstanding (including securities into which such securities are convertible) with rights under this Section 1.2, each future holder of all such securities, and the Company.

1.3 BOARD OBSERVATION RIGHTS. A person beneficially holding or controlling 300,000 (adjusted for stock splits, reverse stock splits, and similar changes in capitalization) or more shares of the Company's Series A Preferred Stock who is not a member of the Company's Board of Directors shall receive from the Company, with such limitations as are provided herein, notice of all meetings for the Board of Directors, and such stockholder shall receive any materials distributed for such meeting and may attend such meetings; provided, however, that the Company may require as a condition

precedent that such stockholder in requesting to attend any meeting of the Board of Directors shall agree to hold it in confidence and trust all information received during or in connection with such meeting and require that such stockholder sign a confidentiality agreement with the Company and, provided further, that the Company reserves the right not to provide information and to exclude such stockholder from any meeting or portion thereof if attendance at such meeting by such stockholder or dissemination of any information at such meeting to such stockholder would, in the good faith judgment of the Board of Directors, result in a conflict of interest. If such stockholder in his or her good faith judgment believes that an item to be discussed by the Board of Directors would result in any conflict of interest, such stockholder shall promptly bring such conflict to the attention of the stockholder on the Board. In no event shall any such stockholder have the right to vote at any such meeting or shall any provision of this paragraph waive any obligation of confidentiality to the Company owed by such stockholder.

2. REGISTRATION RIGHTS.

The Company covenants and agrees as follows:

2.1 DEFINITIONS. For purposes of this Section 2:

(a) The terms "register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with

the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document;

(b) The term "Registrable Securities" means (i) the Common Stock issuable or issued upon conversion of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock and (ii) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, such Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock or Common Stock, excluding in all cases, however, any Registrable Securities sold by a person in a transaction in which such person's registration rights are not assigned;

(c) The number of shares of "Registrable Securities then outstanding" shall be determined by the number of shares of Common Stock outstanding which are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities which are exercisable or convertible into, Registrable Securities;

(d) The term "Holder" means any person owning or having the right to acquire Registrable Securities or any assignee thereof in accordance with Section 2.13 hereof; and

(e) The term "Form S-3" means such form under the Securities Act as in effect on the date hereof or any registration form under the Securities Act subsequently adopted by the SEC in lieu of Form S-3 which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

2.2 REQUEST FOR REGISTRATION.

(a) If the Company shall receive at any time after the earlier of (i) January 1, 2002 or (ii) one year after the effective date of the first registration statement for a public offering of securities of the Company (other than a registration statement relating either to the sale of securities to employees of the Company pursuant to a stock option, stock purchase or similar plan or a SEC Rule 145 transaction), a written request from the Holders of at least 30% of the Registrable Securities then outstanding (or at least 25% of the Registrable Securities then outstanding if such request is made following any Closing of the offering referred to in subsection (ii) of this Section 2.2(a)) that the Company file a registration statement under the Securities Act covering the registration of at least 20% of the Registrable Securities then outstanding (or a lesser percent if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed $15,000,000), then the Company shall, within 10 days of the receipt thereof, give written notice of such request to all Holders and shall, subject to the limitations of subsection 2.2(b), file as soon as practicable, and in any event within 60 days of the receipt of such request, a registration statement under the Securities Act covering all Registrable Securities which the Holders request to be registered within 20 days of the mailing of such notice by the Company in accordance with Section 5.5.

(b) If the Holders initiating the registration request hereunder (the "Initiating Holders") intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 2.2 and the Company shall include such information in the written notice referred to in subsection 2.2(a). In such event, the right of any Holder to include such Holder's Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company as provided in subsection 2.4(e)) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company and consented to by a majority in interest of the Holders proposing to distribute securities through such underwriting (which consent shall not be unreasonably withheld). Notwithstanding any other provision of this Section 2.2, if the underwriter advises the Company and the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Company shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the underwriting shall be allocated among all Holders thereof, including the Initiating Holders, in proportion (as nearly as practicable) to the number of Registrable Securities of the Company owned by each Holder including securities in the underwriting.

(c) The Company is obligated to effect only two such registrations pursuant to this Section 2.2; provided, however, that the Company shall not be obligated to effect a registration pursuant to this Section 2.2 if within the 12 months immediately preceding a request hereunder the Company has effected a demand registration under this Section 2.2.

(d) Notwithstanding the foregoing, if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 2.2 a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company it would be seriously detrimental to the Company and its stockholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, the Company shall have the right to defer such filing for a period of not more than 90 days after receipt of the request of the Initiating Holders; provided, however, that the Company may not utilize this right more than twice in the aggregate and not more than once in any 12-month period.

2.3 COMPANY REGISTRATION. If (but without any obligation to do so) the Company proposes to register (including for this purpose a registration effected by the Company for stockholders other than the Holders) any of its stock or other securities under the Securities Act in connection with the public offering of such securities solely for cash (other than a registration relating solely to the sale of securities to participants in a Company stock plan, or a registration on any form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within 20 days after mailing of such

notice by the Company in accordance with Section 5.5, the Company shall, subject to the provisions of Section 2.8, cause to be registered under the Securities Act all of the Registrable Securities that each such Holder has requested to be registered. No Holder shall have any rights under this Section 2.3 unless it is the owner of at least 200,000 shares of the Company's Common Stock either directly or through ownership of Preferred Stock, as adjusted to reflect any stock splits, stock dividends or other recapitalizations.

2.4 OBLIGATIONS OF THE COMPANY. Whenever required under this Section 2 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the Securities and Exchange Commission (the "SEC") a registration statement with respect to such Registrable Securities and use its reasonable efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to 120 days.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) Furnish, at the request of any Holder requesting registration of Registrable

Securities pursuant to this Section 2, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Section 2, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

2.5 FURNISH INFORMATION.

(a) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 2 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as shall be required to effect the registration of the Registrable Securities.

(b) The Company shall have no obligation with respect to any registration requested pursuant to Section 2.2 or Section 2.12 if, due to the operation of subsection 2.5(a), the number of shares or the anticipated aggregate offering price of the Registrable Securities to be included in the registration does not equal or exceed the number of shares or the anticipated aggregate offering price required to originally trigger the Company's obligation to initiate such registration as specified in subsection 2.2(a) or subsection 2.12(b)(ii), whichever is applicable.

2.6 EXPENSES OF DEMAND REGISTRATION. The Company shall bear and pay all expenses other than underwriting discounts and commissions incurred in connection with registrations, filings or qualifications pursuant to Section 2.2, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and the reasonable fees and expenses of one counsel for the selling Holders selected by them; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 2.2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable

Securities to be registered (in which case all participating Holders shall bear such expenses), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 2.2; provided further, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant to Section 2.2.

2.7 EXPENSES OF COMPANY REGISTRATION. The Company shall bear and pay all expenses incurred in connection with any registration, filing or qualification of Registrable

Securities with respect to the registrations pursuant to Section 2.3 for each Holder (which right may be assigned as provided in Section 2.13), including (without limitation) all registration, filing and qualification fees, printers' and accounting fees relating or apportionable thereto and the reasonable fees and expenses of one counsel for the selling Holders selected by them, but excluding underwriting discounts and commissions relating to Registrable Securities.

2.8 UNDERWRITING REQUIREMENTS. In connection with any offering involving an underwriting of shares being issued by the Company, the Company shall not be required under Section 2.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by it, and then only in such quantity as will not, in the opinion of the underwriters, jeopardize the success of the offering by the Company. If the total number of securities, including Registrable Securities, requested by stockholders to be included in such offering exceeds the number of securities sold other than by the Company that the underwriters reasonably believe compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters believe will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the selling stockholders according to the total number of securities entitled to be included therein owned by each selling stockholder or in such other proportions as shall mutually be agreed to by such selling stockholders) but in no event shall the number of securities of the selling Holders included in the offering be reduced below 30% of the total number of securities included in such offering, unless such offering is the initial public offering of the Company's securities in which case the selling stockholders may be excluded if the underwriters make the determination described above and no other stockholder's securities are included.

2.9 DELAY OF REGISTRATION. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

2.10 INDEMNIFICATION. In the event any Registrable Securities are included in a registration statement under this Section 2:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the officers and directors of each Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (each, a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the

statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law; and the Company will reimburse each such Holder, officer or director, underwriter or controlling person for any legal or other expenses reasonably incurred by them in

connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this subsection 2.10(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, officer, director, underwriter or controlling person.

(b) To the extent permitted by law, each selling Holder will severally and not jointly indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities in such registration statement or any of its directors or officers or any person who controls such Holder, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, controlling person, or underwriter or controlling person, or other such Holder or director, officer or controlling person may become subject, under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or controlling person, other Holder, officer, director, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 2.10(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided, that, in no event shall any indemnity under this subsection 2.10(b) exceed the net proceeds (after deducting any discounts or commissions received by an underwriter in connection with such registration) from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.10 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.10, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and

expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of its obligations under this Agreement, except to the extent, but only to the extent, that the indemnifying party's ability to defend against such action is actually and materially impaired as a result of the failure to give such notice. The omission to so deliver written notice to the indemnifying party will not relieve the indemnifying party of any liability that it may have to any indemnified party otherwise than under this Section 2.10.

(d) If the indemnification provided for in Sections 2.10(a), (b) and (c) is unavailable to an indemnified party under such Sections (other than by reason of exceptions provided in those Sections) in respect of any claims referred to in such Sections, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such claims in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and of the Holders of Registrable Securities on the other in connection with the statements or omissions which resulted in such claims as well as any other relevant equitable considerations. The amount paid or payable by a party as a result of the claims referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The relative fault of the Company on the one hand and of the Holders of Registrable Securities on the

other shall be determined by reference to, among other things, whether the applicable misstatement or alleged misstatement relates to information supplied by the Company or by the applicable Holder of Registrable Securities and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such misstatement or alleged misstatement. The Company and each Holder of Registrable Securities agree that it would not be just and equitable if contribution pursuant to this Section 2.10(d) were determined by PRO RATA allocation or by any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this Section 2.10(d), no Holder shall be required to contribute any amount in excess of the net proceeds (after deducting any discounts or commissions received by an underwriter in connection with such registration) from the offering received by such Holder. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution hereunder from any person who was not guilty of such fraudulent misrepresentation.

(e) The obligations of the Company and Holders under this Section 2.10 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 2, and otherwise.

2.11 REPORTS UNDER SECURITIES EXCHANGE ACT OF 1934. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Securities Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times after 90 days after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public;

(b) take such action, including the voluntary registration of its Common Stock under section 12 of the Exchange Act, as is necessary to enable the Holders to utilize Form S-3 for the sale of their Registrable Securities, such action to be taken as soon as practicable after the end of the fiscal year in which the first registration statement filed by the Company for the offering of its securities to the general public is declared effective;

(c) file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(d) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has compiled with the reporting requirements of SEC Rule 144 (at any time after 90 days after the effective date of the first registration statement filed by the Company), the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

2.12 FORM S-3 REGISTRATION. In case the Company shall receive from any Holder or Holders a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company will:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders; and

(b) as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within 15 days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 2.12: (i) if Form S-3 is not available for such offering by the Holders; (ii) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell

Registrable Securities and such other securities (if any) at an aggregate price to the public (net of any underwriters' discounts or commissions) of less than $1,000,000; (iii) if the Company shall furnish to the Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company it would be seriously detrimental to the Company and stockholders for such Form S-3

Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 Registration Statement for a period of not more than 90 days after receipt of the request of the Holder or Holders under this Section 2.12; provided, however, that the Company shall not utilize this right more than once in any 12-month period; (iv) if the Company has, within the 12-month period preceding the date of such request, already effected two registrations on Form S-3 for the Holders pursuant to this Section 2.12 and other similar provisions granting rights to registration on Form S-3; (v) if in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance; or (vi) if the Holders hold in the aggregate less than 1% of the outstanding shares of the Company's capital stock.

(c) Subject to the foregoing, the Company shall file a registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders. All expenses incurred in connection with a registration requested pursuant to Section 2.12, including (without limitation) all registration, filing, qualification, printer's and accounting fees and the reasonable fees and disbursements of counsel for the selling Holder or Holders and counsel for the Company (with the payment of fees and disbursements of counsel for the Company dependent upon the Company's including securities in such registration), shall be borne pro rata by the Holder or Holders participating in the Form S-3 Registration; provided, however, that the Company shall bear and pay all such expenses, including (without limitation) all registration, filing and qualification fees, printer's and accounting fees and the fees and disbursements of one counsel for the selling Holders, but excluding underwriting discounts and commission relative to the Registrable Securities, with respect to the first three such registration pursuant to this Section 2.12. Registrations effected pursuant to this Section 2.12 shall not be counted as demands for registration effected pursuant to Section 2.2.

2.13 ASSIGNMENT OF REGISTRATION RIGHTS. The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned by a Holder to (i) a transferee or assignee of at least 100,000 of such Holder's shares of Registrable Securities, (ii) another Holder, (iii) in the case of a partnership to a partner or retired partner of such partnership who after such assignment holds at least 20,000 shares of Registrable Securities or (iv) an affiliated entity controlling, controlled by, or under common control with, such Holder; provided, in each case, the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; and provided, further, that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Securities Act.

2.14 LIMITATIONS ON SUBSEQUENT REGISTRATION RIGHTS. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of a majority of the outstanding Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder (a) to include such securities in any registration filed under Sections 2.2 or 2.3 hereof, unless under the terms of such agreement, such holder or prospective holder may include

such securities in any such registration only to the extent that the inclusion of such holder's securities will not reduce the amount of the Registrable Securities of the Holders which is included or (b) to make a demand registration which could result in such registration statement being declared effective prior to the earlier of either of the dates set forth in subsection 2.2(a) or within 120 days of the effective date of any registration effected pursuant to Section 2.2.

2.15 MARKET STAND-OFF AGREEMENT. Each Holder hereby agrees that it shall not, to the extent requested by the Company and an underwriter of Common Stock (or other securities) of the Company, sell or otherwise transfer or dispose (other than to those donees who agree to be similarly

bound) of any Registrable Securities during a reasonable and customary period of time, as agreed to by the Company and the underwriters, not to exceed 180 days, following the effective date of a registration statement of the Company filed under the Securities Act (the "Lock-Up Period"); provided, however, that:

(a) such agreement shall be applicable only to the first such registration statement of the Company which covers shares (or securities) to be sold on its behalf to the public in an underwritten offering; and

(b) all officers and directors of the Company, all holders of at least one percent (1%) of the issued and outstanding securities of the Company and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such reasonable and customary period.

Neither the Company nor the underwriters in a public offering shall reduce or eliminate the Lock-Up Period for any security holder of the Company without similarly reducing or eliminating the Lock-Up Period for each Holder.

2.16 TERMINATION OF REGISTRATION RIGHTS. The Company's obligations pursuant to this Section 2 shall terminate as to any Holder of Registrable Securities on the earlier of (i) when the Holder can sell all of such Holder's shares pursuant to Rule 144 under the Securities Act during any 90-day period or (ii) on the seventh anniversary of any Closing of the Company's sale of its Common Stock in a bona fide, firm commitment underwritten public offering registered under the Securities Act which results in gross offering proceeds of at least $15,000,000, at a public offering price of not less than $7.50 per share (adjusted to reflect stock dividends, stock splits or recapitalizations); provided, however, in no event shall such obligations terminate earlier than the first anniversary of any Closing of the offering described in subsection (ii) of this Section 2.17.

3. COVENANTS.

3.1 DELIVERY OF FINANCIAL STATEMENTS. The Company shall deliver to each Investor and assignee holding that certain number of shares of Series A Preferred Stock, Series B

Preferred Stock, Series C Preferred Stock or Series D Preferred Stock, adjusted for stock splits, reverse stock splits and similar changes in capitalization (the "Preferred Shares") as designated below and any such Investor or assignee may redistribute to any other Investor or assignee the information specified in paragraphs (a) through (f) below:

(a) to holders of at least 100,000 Preferred Shares, as soon as practicable, but in any event within 90 days after the end of each fiscal year of the Company, a statement of operations for such fiscal year, a balance sheet of the Company as of the end of such year, and a statement of cash flows for such year, such year-end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("GAAP"), and audited and certified by independent public accountants of nationally recognized standing selected by the Company;

(b) to holders of at least 100,000 Preferred Shares, within 30 days of the end of each calendar quarter, an unaudited statement of operations, statement of cash flows and balance sheet for and as of the end of such quarter, in reasonable detail; such quarterly statements shall also contain the foregoing information on a year-to-date basis and shall also compare actual performance to budget;

(c) to holders of at least 500,000 Preferred Shares, within 30 days of the end of each month, an unaudited statement of operations, statement of cash flows and balance sheet for and as of the end of such month, in reasonable detail; such monthly statements shall also contain the foregoing information on a year-to-date basis and shall also compare actual performance to budget;

(d) to holders of at least 100,000 Preferred Shares, not less than 30 days prior to the close of each fiscal year, a comprehensive operating budget for the next fiscal year forecasting the Company's revenues, expenses and cash positions, prepare on a monthly basis, including balance sheets and sources and applications of funds statements for such months and, as soon as prepared, any other budgets or revised budgets prepared by the Company;

(e) to holders of at least 100,000 Preferred Shares, such other information relating to the financial condition, business, prospects or corporate affairs of the Company as Investor may from time to time request, provided, however, that the Company shall not be obligated to provide information which it deems in good faith to be proprietary; and

(f) with respect to the financial statements called for in subsection (a) of this Section 3.1, an instrument executed by the Chief Financial Officer or the President of the Company and certifying that such financials were prepared in accordance with internally consistent accounting methods consistently applied with prior practice for earlier periods and fairly present the financial condition of the Company and its results of operation for the period specified, subject to year-end audit adjustment.

3.2 INSPECTION. The Company shall permit each Investor, at such Investor's expense and with reasonable prior notice, to visit and inspect the Company's properties, to examine its books of account and records and to discuss the Company's affairs, finances and

accounts with its officers, all at such reasonable times as may be requested by Investor; provided, however, that the Company shall not be obligated pursuant to this Section 3.2 to provide access to any information which it reasonably considers to be a trade secret or similar confidential information.

3.3 TERMINATION OF COVENANTS. The covenants set forth in Sections 3.1 and 3.2 hereof shall terminate and be of no further force or effect when the sale of securities pursuant to a registration statement filed by the Company under the Securities Act in connection with the firm commitment underwritten offering of its securities to the general public is consummated or when the Company first becomes subject to the periodic reporting requirements of section 13(a) or 15(d) of the Exchange Act, whichever event shall first occur; provided that the Company shall furnish, for five years following the termination of such covenants, to Investor copies of its reports on Forms 10-K and 10-Q within 10 days after filing with the SEC.

3.4 PROPRIETARY INFORMATION AGREEMENTS. The Company shall use its best efforts to cause that all employees of and consultants to the Company having access to the Company's proprietary and confidential information shall execute proprietary information agreements with the Company approved by the Company's Board of Directors.

3.5 OPTION VESTING. All options or warrants hereafter granted by the Company to its employees, officers, directors, consultants or advisors ("Restricted Parties"), all Options previously granted by the Company's Board of Directors but not yet evidenced by an Option grant, and all restricted stock purchase agreements hereafter entered into by the Company with Restricted Parties, will be subject to a vesting schedule providing for twenty-five percent (25%) vesting after the first twelve (12) months of employment and daily vesting as to the remaining seventy-five percent (75%) of the shares over the following thirty six (36) months after the first anniversary of the employment commencement date, or such other vesting schedule as is approved by the Company's Compensation Committee.

3.6 COMPLIANCE WITH LAW. (i) The operations of the Company and its Subsidiaries will be conducted in compliance with all Applicable Laws promulgated by any Governmental Authority, including, without limitation, all Applicable Laws relating to consumer protection, equal opportunity, health, health care industry regulation, third party reimbursement (including Medicare, Medicaid, and workers compensation), environmental protection, fire, zoning and building and occupational safety matters, except for noncompliance that individually or in the aggregate would not and, insofar as may reasonably be foreseen, in the future will not, have a material adverse effect on the Company or any Subsidiary.

(ii) In addition to and without limiting the generality of the foregoing, the Company shall adopt and implement a compliance plan adequate to assure such compliance. The compliance plan shall include all material elements of an effective program to prevent and detect violations of law as identified in Commentary 3(k) to Section 8A1.2 of the federal Sentencing Guidelines.

(iii) DEFINITIONS. For purposed of this Section 3.6:

"Applicable Law" means, with respect to any person or entity, any federal, state or local statute, law, ordinance, rule, administrative interpretation, regulation, order, writ, injunction,

directive, judgment, decree or other requirement of any governmental authority applicable to such person or entity or any of its Subsidiaries or any of their respective properties, assets, officers, directors, employees, consultants or agents.

"Governmental Authority" means any branch, component, agency or instrumentality of federal, state or local government.

"Subsidiary" means any entity which is wholly-owned by the Company or in which the Company has a beneficial ownership interest, including any partnership or joint venture entity.

3.7 INSURANCE. The Company and each of the Subsidiaries will maintain in full force and effect with insurers insurance in such amounts and against such losses and risks as is sufficient and reasonable given the nature of their respective businesses.

4. SALES BY INVESTORS.

4.1 RIGHT OF FIRST REFUSAL. The parties agree that before there can be a valid sale, assignment or transfer by any Investor of 20,000 shares or more of the Company's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock within any six (6) month period (other than (i) a transfer not involving a change in beneficial ownership, (ii) transactions involving the distribution of such shares by any of the Investors to any of their partners, or stockholders, (iii) pursuant to a transfer without consideration to the spouse or lineal descendants of the transferring Investor, or a trust for the benefit of the transferring Investor, his spouse and/or lineal descendants or (iv) a transfer to an affiliated entity controlling, controlled by, or under common control with, the Investor), the Investor intending to transfer (the "Selling Investor") shall first give notice in writing (the "Notice of Sale") to the Company of his, her or its intention to sell such shares (the "Noticed Shares"). Such Notice of Sale shall specify the number of Notice Shares to be sold, the name of the proposed purchaser (the "Proposed Investor Purchaser"), the price per Noticed Share and the terms and conditions upon which the Selling Investor intends to make such sale. Promptly upon the Company's receipt of such Notice of Sale, the Secretary of the Company shall mail or deliver a copy of such Notice of Sale to all Investors owning an aggregate of Common Stock Equivalents (as hereafter defined) representing at least 100,000 shares of Common Stock (as adjusted for stock splits, contributions and stock dividends) (such stockholders being hereinafter referred to as the "Optionee Investors"). Within thirty (30) days thereafter, any such Optionee Investor or Investor (the "Offering Investor") desiring to acquire any part or all of the Noticed Shares shall deliver by mail or otherwise to the Secretary of the Company a written offer or offers, to purchase a specified number of such Noticed Shares at the price and upon the terms and conditions stated in such Notice of Sale, accompanied by the stated consideration therefor with authorization to transfer such consideration against delivery of such shares, which offers, subject to Section 4.2, shall be accepted by the Selling Investor. As used herein, "Common Stock Equivalents" shall mean outstanding shares of Common Stock and shares of Common Stock issuable upon conversion of

outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock or Series F Preferred Stock.

If the total number of shares specified in said offers to the Secretary exceeds the number of the Noticed Shares, each Offering Investor shall be entitled to purchase that number of shares which is equal to the lesser of:

(i) the number of shares specified in said offer or,

(ii) such proportion of the Notice Shares as the number of shares (on an as-if-converted basis) that such Offering Investor holds bears to the total number of shares held by all the Offering Investors (on an as-if-converted basis).

If all of the Noticed Shares are not disposed of under the apportionment pursuant to this Section 4.1, those shares remaining undisposed of shall be apportioned among those Offering Investors whose number of Shares specified in their respective offers under Section 4.1 exceed the number of shares allocated to them, which excess shares shall be apportioned on the basis of the apportionment formula set forth in this Section, and said apportionment process shall be repeated with respect to any excess shares after each apportionment until all Noticed Shares are allocated.

4.2 FAILURE TO EXERCISE OPTIONS AND MAKE OFFERS FOR ALL SHARES. If options are not exercised and/or offers made in the aggregate for all of the Noticed Shares within the thirty (30) day period referred to

herein, the Selling Investors shall not be obligated to sell the Noticed Shares or any fraction thereof to the Optionee Investors, and may dispose of all of the Noticed Shares to the Proposed Purchaser named in said Notice of Sale, provided, however, that the Selling Investor shall not sell less than all of said Noticed Shares nor shall it sell such shares at a lower price or on terms or conditions more favorable to the Proposed Purchaser than those specified in said Notice of Sale without first offering the new price, terms and conditions to Optionee Investors as hereinabove set forth. If the Selling Investor does not so sell the Noticed Shares to such Proposed Purchaser within one hundred twenty (120) days after it first gave notice to the Company pursuant to Section 4.1, it shall again first offer such shares to the Optionee Investors prior to selling them to any Proposed Purchaser.

4.3 NONMONETARY CONSIDERATION.

(a) If part or all of the purchase consideration specified in a Notice of Sale is other than money or purchaser's promissory note or other evidence of indebtedness, such Notice of Sale shall also specify the fair market value in cash of such other consideration. The Optionee Investors shall have the right to exercise their respective options to purchase the Noticed Shares by delivery of a written offer or offers specifying a cash purchase price equal to the total of the monetary consideration and the fair market value of the nonmonetary consideration specified in the Notice of Sale.

(b) If any Optionee Investor objects to the amount specified in the Notice of Sale as the fair market value of any nonmonetary consideration, such Optionee Investor shall,

within twenty (20) days of the receipt of the Notice of Sale, submit a written request to the Company that the matter be submitted to the Board of Directors for determination. Pending such determination, or a determination pursuant to subsection (c) below, the time for exercising options to purchase shares shall be stayed as of the date of such notice. Promptly upon the Company's receipt of such notice from the objecting Optionee Investor, the Secretary of the Company shall notice and call a special meeting of the Board of Directors, to be held within fifteen (15) days of the Company's receipt of notice from the objecting Optionee Investor, for the purpose of determining in good faith the fair market value of the nonmonetary consideration specified in the Notice of Sale. Any decision of the Board of Directors made in good faith shall be final and binding upon all parties. The Board of Directors shall promptly give written notice of its decision and the resulting calculation of the purchase price to the parties.

(c) If the Board of Directors fails or refuses to make a determination of the fair market value of such nonmonetary consideration within such fifteen (15) day period from the date of the Company's receipt of notice from the objecting Optionee Investor, the objecting Optionee Investor and the Selling Investor shall select and agree upon a single appraiser. If the parties are unable to agree upon a single appraiser within ten (10) days after the end of the fifteen (15) day period specified above, then either party may apply to the San Diego Superior Court (pursuant to a petition to compel arbitration) for the appointment of a single appraiser in accordance with Section 1280 ET SEQ. of the California Code of Civil Procedure. Such appraiser shall thereupon promptly determine the fair market value of the nonmonetary consideration specified in the Notice of Sale, and shall promptly give written notice of such appraiser's decision and the resulting calculation of the purchase price to the parties and to the Company.

(d) All expenses of the determination by the Board of Directors or the appraisal and proceedings to appoint an appraiser, as the case may be, shall be borne one-half by the Optionee Investors who exercise their options to purchase the Noticed Shares (who shall share such expenses among themselves in proportion to the number of shares each elects to purchase) and one-half by the Selling Investor, unless the Optionee Investors thereafter fail to exercise their respective options, in which case the objecting Optionee Investor shall bear all such expenses.

4.4 TERMINATION. Notwithstanding the foregoing, the rights of first refusal set forth in this Section 4 shall terminate upon any Closing of the Company's first firmly underwritten public offering of its Common Stock registered under the Securities Act of 1933.

5. MISCELLANEOUS.

5.1 SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any shares of Registrable Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

5.2 GOVERNING LAW; JURY TRIAL WAIVER. This Agreement shall be governed by and construed under the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California. THE PARTIES HERETO IRREVOCABLY WAIVE ALL RIGHTS TO A TRIAL BY JURY IN ANY SUIT, ACTION OR OTHER PROCEEDING INSTITUTED BY OR AGAINST THE PARTY IN RESPECT OF ITS OBLIGATIONS HEREUNDER OR THE TRANSACTIONS CONTEMPLATED HEREBY.

5.3 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

5.4 TITLES AND SUBTITLES. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

5.5 NOTICES. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by registered or certified mail, postage prepaid, and telecopier, and addressed to the party to be notified at the address indicated for such party on the signature page hereof, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

5.6 EXPENSES. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

5.7 AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of a majority of the Registrable Securities then outstanding; provided, however, that any such amendment or waiver which would have a disproportionate effect on any Holder shall require the written consent of such Holder. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities then outstanding, each future holder of all such Registrable Securities, and the Company.

5.8 SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

5.9 AGGREGATION OF STOCK. All shares of Registrable Securities held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

5.10 ENTIRE AGREEMENT. This Agreement, a letter agreement between the Company and GE Capital Equity Investments, Inc. dated of even date herewith, a letter agreement between the Company and Merrill Lynch Ventures L.P. 2001 dated of even date herewith and the documents referred to herein constitute the entire agreement among the parties hereto and no party shall be liable or bound to any other party in any manner by any warranties, representations, or covenants except as specifically set forth herein or therein.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY: DIGIRAD CORPORATION,
a Delaware corporation

By: /s/ Scott Huennekens

Scott Huennekens, President

FOUNDERS: JACK F. BUTLER

By: /s/ Jack F. Butler

Jack F. Butler

Address: 16650 Las Cuestas
Rancho Santa Fe, CA 92067

CLINTON L. LINGREN

By: /s/ Clinton L. Lingren

Clinton L. Lingren

Address: 6211 Hannon Ct.
San Diego, CA 92117

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

EXISTING INVESTORS:

KINGSBURY CAPITAL PARTNERS, L.P.

By: Kingsbury Associates, L.P.,
Its General Partner

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

KINGSBURY CAPITAL PARTNERS, L.P., II

By: Kingsbury Associates, L.P.,
Its General Partner

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

KINGSBURY CAPITAL PARTNERS, L.P., III

By: Kingsbury Associates, L.P.,
Its General Partner

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

KINGSBURY CAPITAL PARTNERS, L.P., IV

By: Kingsbury Associates, L.P.,
Its General Partner

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

EXISTING INVESTORS:

SORRENTO GROWTH PARTNERS I, L.P.

By: Sorrento Equity Growth Partners
I, L.P., Its General Partner

By: Sorrento Associates, Inc.,
Its General Partner

By: /s/ Robert M. Jaffee

Robert M. Jaffe, President

SORRENTO VENTURES II, L.P.

By: Sorrento Equity Partners, L.P.,
Its General Partner

By: Sorrento Associates, Inc.,
Its General Partner

By: /s/ Robert M. Jaffe

Robert M. Jaffe, President

Address: 4370 La Jolla Village Drive, Suite 1040
San Diego, CA 92122

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

EXISTING INVESTORS:

SORRENTO VENTURES III, L.P.

By: /s/ Robert M. Jaffe

Robert M. Jaffe
President, Sorrento Associates, Inc.
General Partner, Sorrento Equity Partners III, L.P.
General Partner, Sorrento Ventures III, L.P.

SORRENTO VENTURES CE, L.P.

By: /s/ Robert M. Jaffe

Robert M. Jaffe
President, Sorrento Associates, Inc.
General Partner, Sorrento Equity Partners III, L.P.
General Partner, Sorrento Ventures CE, L.P.

Address: 4370 La Jolla Village Drive, Suite 1040
San Diego, CA 92122

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

EXISTING INVESTORS:

VECTOR LATER-STAGE EQUITY FUND, L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: /s/ Doug Reed

Doug Reed
Managing Director

VECTOR LATER-STAGE EQUITY FUND II, L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: /s/ Doug Reed

Doug Reed
Managing Director

VECTOR LATER-STAGE EQUITY FUND II (Q.P.), L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: /s/ Doug Reed

Doug Reed
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

EXISTING INVESTORS:

PALIVACINNI PARTNERS, LP

By: /s/ Doug Reed

Doug Reed
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

EXISTING INVESTORS:

AUREUS DIGIRAD, LLC

By: /s/ Robert M. Averick

Name: Robert M. Averick

Its: Member

Address: 100 First Stamford Place
Stamford, CT 06902

EXISTING INVESTORS:

MERRILL LYNCH VENTURES, L.P. 2001

By: Merrill Lynch Ventures LLC
Its General Partner

By: /s/ Edward J. Higgins

Edward J. Higgins
Vice President

Address: 2 World Financial Center, 31st Floor
New York, NY 10281
Attn: Jean Kim

All Notices: Merrill Lynch Ventures, L.P. 2001
95 Greene Street
Jersey City, NJ 07302-3815
Attn: Robert F. Tully

EXISTING INVESTORS:

INGLEWOOD VENTURES, L.P.

By: /s/ Daniel C. Wood

Daniel C. Wood
Title: Member

Address: 12526 High Bluff Drive, Suite 300
San Diego, CA 92130

EXISTING INVESTORS:

ANACAPA INVESTORS, LLC -
ANACAPA I

By: /s/ Robert Raede

Robert Raede
Manager

Address: 32 W. Anapamu Street, #350
Santa Barbara, CA 93101

EXISTING INVESTORS:

KENNETH E. OLSON TRUST DATED 3/16/89

By: K. Olson

Name: Trustee

Title:

Address: 404 Torrey Point Road
Del Mar, CA 92014

EXISTING INVESTORS:

MID-CAROLINA CARDIOLOGY, PA

By: /s/ Stephen A. McAdams

Stephen A. McAdams, M.D.
Chief Executive Officer

Address: 1718 East Fourth Street, Suite 501
Charlotte, NC 28204

STEPHEN A. MCADAMS AND LOU ANN MCADAMS

/s/ Stephen A. McAdams

Stephen A. McAdams

/s/ Lou A. McAdams

Lou Ann McAdams

Address: 1718 East Fourth Street, Suite 501

Charlotte, NC 28204

NEW INVESTORS:

SILICON VALLEY BANK

By: /s/ Patrick J. O'Donnell

Name: Patrick J. O'Donnell

Title: Regional Market Manager

Dated as of the Date of the Agreement

Address: 3003 Tasman Drive, HG 110
Santa Clara, CA 95054
Attention: Treasury Department

NEW INVESTORS:

D. THEODORE BERGHORST

/s/ D. Theodore Berghorst

Signature

Address: 12 Kent Road
Winnetka, IL 60093

BERGHORST 1998 DYNASTIC TRUST

By: /s/ D. Theodore Berghorst

D. Theodore Berghorst as Financial Advisor

Address: 12 Kent Road
Winnetka, IL 60093

NEW INVESTORS:

PETER F. DRAKE

/s/ Peter F. Drake

Signature

Address: 255 Mayflower Road
Lake Forest, IL 60045

NEW INVESTORS:

IMPERIAL VENTURES, INC.

By: /s/ James Rutter

James B. Rutter
President

Address: 11512 El Camino Real, Suite 350
San Diego, CA 92130

NEW INVESTORS:

STEPHEN A. MCADAMS ROLLOVER IRA

By: /s/ Stephen A. McAdams

Stephen A. McAdams

Address: 1718 East Fourth Street, Suite 501
Charlotte, NC 28204

NEW INVESTORS:

W AUGUST HILLENBRAND

/s/ W. August Hillenbrand

Signature

Address: 700 S.R. 46E
Batesville, IN 47006

NEW INVESTORS:

TAH & H INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

KKH & C INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

WAH & M INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

Address: 5 Observatory Hill
Cincinnati, OH 45208

NEW INVESTORS:

MLH & T INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

RDH & S INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its General Partner

By: /s/ Charles W. Crowther

Charles W. Crowther
Investment Committee Member

Address: 5 Observatory Hill
Cincinnati, OH 45208

NEW INVESTORS:

GE CAPITAL EQUITY INVESTMENTS, INC.

By: /s/ David Gibbs

David Gibbs
Senior Vice President

Address: 120 Long Ridge Road
Stamford, CT 06927

SCHEDULE A

FOUNDERS

Jack Butler, Sr.
Jack Butler, Jr.
Alice Butler
Michael Butler
Patricia Butler
Clinton Lingren
Leslie Lingren
David Lingren
Corinne Avayo
Wallace Goodson
LaVerne Clark
Marcia McChesney
Vera Williams
Marilyn Sargent
Grant Heileson
Carma Farley
Darlene Logan
Kathleen Ipsen
Terry Tervort
Michelle Belnap
Alison Komm

EXISTING INVESTORS

Vector Later-Stage Equity Fund, L.P.
Vector Later-Stage Equity Fund II, L.P.
Vector Later-Stage Equity Fund II (Q.P.), L.P.
Furman Selz SBIC L.P.
Sorrento Growth Partners I, L.P.
Sorrento Ventures II, L.P.
Sorrento Ventures III, L.P.
Sorrento Ventures CE, L.P.

Kingsbury Capital Partners, L.P.
Kingsbury Capital Partners, L.P., II
Kingsbury Capital Partners, L.P., III
Kingsbury Capital Partners L.P., IV
Jack F. Butler, Sr.
Gerald G. Loehr Trust
William L. Ashburn
Karen A. Klause
Kenneth E. Olson Trust
Peter T. Dunn

SCHEDULE A-1

Dunn Family Trust
Nathan P. Dunn
Kyla E. Dunn
The Arthur & Sophie Brody Revocable Trust DTD 04/13/89
Malin Burnham
Philip L. Elkus Trust DTD 09/09/74
Elliot Feuerstein Trust DTD 05/14/82
Stanley and Maxine Firestone Trust DTD 12/02/88
Ira R. and Joan P. Katz Qualified Marital Trust
Knowles Family Trust
The SDL Trust
Arthur E. Nicholas
The Stanley E. and Pauline M. Foster Trust DTD 07/31/81
Page Trust DTD 03/03/89
Forrest N. Shumway & Patricia K. Shumway Trust DTD 04/26/94
Derbes Family Trust U/D/T 04/25/86
Sutro Investment Partners V., LLC
SBSF Biotechnology Fund, L.P.
SBSF Biotechnology Partners Fund, L.P.
ABS Employees' Venture Fund Limited Partnership
JAFCO Co., Ltd.
JAFCO R-3 Investment Enterprise Partnership
JAFCO JS3 Investment Enterprise Partnership
JAFCO G-6 (A) Investment Enterprise Partnership
JAFCO G-6 (B) Investment Enterprise Partnership
JAFCO G-7 (A) Investment Enterprise Partnership
JAFCO G-7 (B) Investment Enterprise Partnership
Johnson & Johnson Development Corporation
Health Care Indemnity, Inc.
Mitsui & Co., Ltd.
MVC Global Japan Fund I
Ocean Avenue Investors, LLC - Founders Fund
Ocean Avenue Investors, LLC - Redstone Fund
Aureus Digirad, LLC
Merrill Lynch Ventures, L.P. 2001
Mid-Carolina Cardiology, PA
Stephen A. McAdams and Lou Ann McAdams, as Joint Tenants
Akinyele Aluko, M.D.
Harvey Family LLC
GFP Digirad
Dr. Jerome Williams, Jr.
Dwayne A. Schmidt
Richard N. and Judy F. Linder
Fisk Ventures LLC
IngleWood Ventures, L.P.
The University of North Carolina at Chapel Hill
Foundation Investment Fund, Inc.
Palivaccini Partners, LP

SCHEDULE A-2

Anacapa Investors, LLC -Anacapa I

NEW INVESTORS

GE Capital Equity Investments, Inc.
D. Theodore Berghorst
Imperial Ventures, Inc.
W August Hillenbrand
TAH & H Investors, LP
KKH & C Investors, LP
WAH & M Investors, LP
MLH & T Investors, LP
RDH & S Investors, LP
Peter F. Drake
Silicon Valley Bank
Stephen A. McAdams Rollover IRA

SCHEDULE A-3

EXHIBIT 10.20

AMENDED AND RESTATED CO-SALE AGREEMENT

This AMENDED AND RESTATED CO-SALE AGREEMENT (this "Agreement") is made as of this 10th day of November, 2000 by and among Digirad Corporation, a Delaware corporation (formerly Aurora Technologies Corporation, a California corporation) (the "Company"), each of the founders listed under the heading "Founders" on SCHEDULE A attached hereto (each a "Founder", and collectively the "Founders"), holders of a majority of the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock listed under the heading "Existing Investors" on SCHEDULE A attached hereto (the "Existing Investors") and each of the purchasers of the Series E Preferred Stock of the Company listed under the heading "New Investors" on SCHEDULE A attached hereto (the "New Investors").

RECITALS

WHEREAS, the Founders and the Existing Investors have, from time to time, purchased shares of the Company's Common Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and/or Series E Preferred Stock and have become parties to that certain Co-Sale Agreement dated May 13, 1994, as amended by that certain Amendment No. 1 to the Co-Sale Agreement dated December 8, 1995, that certain Amendment No. 2 to the Co-Sale Agreement dated April 23, 1996, that certain Amendment No. 3 to the Co-Sale Agreement dated September 6, 1996, that certain Amendment No. 4 to the Co-Sale Agreement dated September 30, 1996, that certain Amendment No. 5 to the Co-Sale Agreement dated August 8, 1997, that certain Amendment No. 6 to the Co-Sale Agreement dated March 15, 2000 and that certain Addendum to Amendment No. 6 to the Co-Sale Agreement dated April 6, 2000 (collectively, the "Co-Sale Agreement").

WHEREAS, the New Investors are purchasing shares of the Company's Series E Preferred Stock pursuant to a Fourth Additional Series E Preferred Stock Purchase Agreement dated as of even date herewith (the "Purchase Agreement").

WHEREAS, as an inducement to the New Investors to purchase shares of the Series E Preferred Stock, the Company, the Founders, the Existing Investors and the New Investors all desire to completely amend and restate the Co-Sale Agreement pursuant to Section 7.2 with respect to the matters set forth therein.

THEREFORE, in consideration of the mutual covenants set forth herein, the parties agree as follows:

1. DEFINITIONS.

a. "Stock" shall mean outstanding shares of the Company's Common Stock now owned by the Founders.

b. "Preferred Stock" shall mean outstanding shares of the Company's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

c. "Common Stock" shall mean the Company's Common Stock and shares of Common Stock issued or issuable upon conversion of the Company's outstanding Preferred Stock.

d. "Stockholders" shall mean the Existing Investors and the New Investors, collectively.

2. SALES BY FOUNDERS.

a. If any Founder proposes to sell or transfer any shares of Stock except as otherwise permitted herein, then such Founder shall promptly give written notice (the "Notice") to the Company and the Stockholders at least 20 days prior to the closing of such sale or transfer. The Notice shall describe in reasonable detail the proposed sale or transfer including, without limitation, the number of shares of Stock to be sold or transferred, the nature of such sale or transfer, the consideration to be paid, and the name and address of each prospective purchaser or transferee. In the event that the sale or transfer is being made pursuant to the provisions of paragraph 3(a) or 3(b) hereof, the Notice shall state under which paragraph the sale or transfer is being made.

b. Each Stockholder shall have the right, exercisable upon written notice to such Founder within 15 days after receipt of the Notice,

to participate in such sale of Stock on the same terms and conditions. To the extent one or more of the Stockholders exercise such right of participation in accordance with the terms and conditions set forth below, the number of shares of Stock that the Founder may sell in the transaction shall be correspondingly reduced. A Stockholder with one or more affiliated funds may apportion the number of shares it is entitled to sell pursuant to paragraph (c) below among such funds in any manner the Stockholder may choose.

c. Each Stockholder may sell all or any part of that number of shares of Stock equal to the product obtained by multiplying (i) the aggregate number of shares of Stock covered by the Notice by (ii) a fraction the numerator of which is the number of shares of Common Stock owned by such Stockholder at the time of the sale or transfer and the denominator of which is the total number of shares of Common Stock owned by the Founder and all of the Stockholders at the time of the sale or transfer. Notwithstanding the foregoing, in the event of any purchase of shares of Stock by the Company (or its assignees) pursuant to any right of first refusal or by the Stockholder under paragraph (g) below, no Stockholder shall have any co-sale rights under this Section 2 with respect to any shares of Stock so purchased.

d. Each Stockholder electing to participate (each a "Participant," and collectively, the "Participants") shall effect its participation in the sale by promptly delivering to the Founder for transfer to the prospective purchaser one or more certificates, properly endorsed for transfer, which represent:

(i) the type and number of shares of Common Stock which such Participant elects to sell; or

(ii) that number of shares of Preferred Stock which is at such time convertible into the number of shares of Common Stock which such Participant elects to sell; provided, however, that if the prospective purchaser objects to the delivery of shares of Preferred Stock in lieu of Common Stock, such Participant shall convert such Preferred Stock into shares of Common Stock and deliver such shares of Common Stock as provided in subparagraph 2(d)(i) above. The Company agrees to make any such conversion concurrent with the actual transfer of such shares to the purchaser.

e. The stock certificate or certificates that the Participant delivers to the Founder pursuant to paragraph 2(d) shall be transferred to the prospective purchaser in consummation of the sale of the Stock pursuant to the terms and conditions specified in the Notice, and the Founder shall concurrently therewith remit to such Participant that portion of the sale proceeds to which such Participant is entitled by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibits such assignment or otherwise refuses to purchase shares or other securities from a Participant exercising its rights of co-sale hereunder, the Founder shall not sell to such prospective purchaser or purchasers any Stock unless and until, simultaneously with such sale, the Founder shall purchase such shares or other securities from such Participant.

f. The exercise or non-exercise of the rights of the Stockholders hereunder to participate in one or more sales of Stock made by the Founder shall not adversely affect their rights to participate in subsequent sales of Stock subject to paragraph 2(a).

g. Notwithstanding the foregoing, in the event the holders of a majority of the outstanding shares of Preferred Stock held by the Stockholders so elect, the Stockholders shall have the right, exercisable upon written notice to the Founders within 15 days after receipt of the Notice, to purchase, within 30 days of receipt of the Notice, all (but not less than all) of the shares of Stock specified in the Notice, excluding any shares purchased or designated for purchase by the Company (or its assignees) pursuant to any Company right of first refusal; provided, however, in the event the Company (or its assignees) has any right of first refusal with respect to such shares, the time periods specified in this sentence shall extend from the later of the date of receipt by the Stockholders of the Notice and the date of receipt by the Stockholders of notice from the Company (or its assignee) as to its decision to exercise its right of first refusal with respect to such shares. Each Stockholder participating in such purchase shall purchase the number of shares equal to the aggregate number of shares of Stock specified in the Notice, excluding any shares purchased or designated for purchase by the Company (or its assignees) pursuant to any Company right of first refusal, multiplied by a fraction the numerator of which is the number of shares of Common Stock owned by such Stockholder at the time of the sale or transfer and the denominator of which is the total number of shares of Common Stock owned at such time by all Stockholders participating in such purchase. Subject to the restrictions contained herein, the closing for any such purchase shall be held on a date set by the Company and a majority of the Stockholders participating in such purchase. The Company shall give the participating Stockholders and each Founder notice of the closing date, at which time the portion to be purchased by each

participating Stockholder shall be determined.

3. EXEMPT TRANSFERS.

a. Notwithstanding the foregoing, the co-sale rights of the Stockholders shall not apply to (i) any pledge of Stock made pursuant to a bona fide loan transaction that creates a mere security interest, (ii) any transfer to the ancestors, descendants or spouse or to trusts for the benefit of such persons or a Founder; or (iii) any bona fide gift; provided that (A) the transferring Founder shall inform the Stockholders of such pledge, transfer or gift prior to effecting it and (B) the pledgee, transferee or donee shall furnish the Stockholders with a written agreement to be bound by and comply with all provisions of Section 2. Such transferred Stock shall remain "Stock" hereunder, and such pledgee, transferee or donee shall be treated as a "Founder" for purposes of this Agreement.

b. Notwithstanding the foregoing, the provisions of Section 2 shall not apply to the sale of any Stock (i) to the public pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act") or (ii) to the Company, or (iii) if prior to such sale, the Founder held less than 5% of the Company's outstanding shares.

4. PROHIBITED TRANSFERS.

a. In the event a Founder should sell any Stock in contravention of the co-sale rights of the Stockholders under this agreement (a "Prohibited Transfer"), the Stockholders, in addition to such other remedies as may be available at law, in equity or hereunder, shall have the put option provided below, and the Founder shall be bound by the applicable provisions of such option.

b. In the event of a Prohibited Transfer, each Stockholder shall have the right to sell to the Founder the type and number of shares of Stock equal to the number of shares each Stockholder would have been entitled to transfer to the purchaser had the Prohibited Transfer under Section 2(c) hereof been effected pursuant to and in compliance with the terms hereof. Such sale shall be made on the following terms and conditions:

(i) The price per share at which the shares are to be sold to the Founder shall be equal to the price per share paid by the purchaser to the Founder in the Prohibited Transfer. The Founder shall also reimburse each Stockholder for any and all fees and expenses, including legal fees and expenses incurred pursuant to the exercise or the attempted exercise of the Stockholder's rights under Section 2.

(ii) Within 90 days after the later of the dates on which the Stockholder (A) received notice of the Prohibited Transfer or (B) otherwise become aware of the Prohibited Transfer, each Stockholder shall, if exercising the option created hereby, deliver to the Founder the certificate or certificates representing shares to be sold, each certificate to be properly endorsed for transfer.

(iii) The Founder shall, upon receipt of the certificate or certificates for the shares to be sold by a Stockholder, pursuant to this subparagraph 4(b), pay the aggregate purchase price therefor and the amount of reimbursable fees and expenses, as specified in subparagraph 4(b)(i), in cash or by other means acceptable to the Stockholder.

(iv) Notwithstanding the foregoing, any attempt by a Founder to transfer Stock in violation of Section 2 hereof shall be void and the Company agrees it will not effect such a transfer nor will it treat any alleged transferee as the holder of such shares without the written consent of a majority in interest of the Stockholders.

5. ASSIGNMENT OF COMPANY'S RIGHT OF FIRST REFUSAL. In the event the Company does not exercise its right of first refusal provided for in any stockholder agreement entered into between the Company and a Founder, the Company shall assign such right to the Stockholders. In the event the holders of a majority of the outstanding shares of Preferred Stock so elect, the Stockholders may exercise such right, within the time period specified in such Stockholder Agreement, to purchase all (but not less than all) of the shares subject to the Company's right of first refusal and specified in the notice to the Company by the Founder as provided for in such Stockholder Agreement (the "Offered Shares"). In that event, each Stockholder shall purchase the number of shares of Stock specified in the notice to the Company equal to the number of

Offered Shares multiplied by the fraction set forth in Section 2(g) hereof.

6. LEGEND.

a. Each certificate representing shares of Stock now or hereafter owned by the Founders or issued to any person in connection with a transfer pursuant to Section 3(a) hereof shall be endorsed with the following legend:

"THE SALE, PLEDGE, HYPOTHECATION OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN AMENDED AND RESTATED CO-SALE AGREEMENT BY AND BETWEEN THE STOCKHOLDER, THE CORPORATION AND CERTAIN HOLDERS OF STOCK OF THE CORPORATION AS AMENDED FROM TIME TO TIME. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE CORPORATION."

b. Each Founder agrees that the Company may instruct its transfer agent to impose transfer restrictions on the shares represented by certificates bearing the legend referred to in Section 6(a) above to enforce the provisions of this Agreement and the Company agrees to promptly do so. The legend shall be removed upon termination of this Agreement.

7. MISCELLANEOUS.

7.1 GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the State of California, without regard to principles of conflicts of laws.

7.2 AMENDMENT. Any provision may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only by the written consent of (i) as to the Company, the Company, (ii) as to the Stockholders, by persons holding more than fifty percent (50%) in interest of the Common Stock held by the Stockholders and their assignees, pursuant to Section 7.3 hereof, and (iii) as to each Founder, such Founder, provided that any Stockholder may waive any of its rights hereunder without obtaining the consent of any other Stockholder. Any amendment or waiver effected in

accordance with clauses (i), (ii) and (iii) of this paragraph shall be binding upon the Company, each Stockholder, its successors and assigns, and each Founder.

7.3 ASSIGNMENT OF RIGHTS. This Agreement and the rights and obligations of the parties hereunder shall inure to benefit of, and be binding upon, their respective successors, assigns and legal representatives. The rights of the Stockholders hereunder are only assignable (i) by each of such Stockholders to any other Stockholder, (ii) to an assignee or transferee who acquires all of the Common Stock purchased by a Stockholder or at least 50,000 shares of Common Stock or (iii) to an affiliated entity controlling, controlled by, or under common control with, a Stockholder.

7.4 TERM. This Agreement shall terminate upon the earlier of (i) the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of the Company's Common Stock at an aggregate offering price of not less than $15,000,000 and at a public offering price of not less than $7.50 per share (as adjusted to reflect subsequent stock dividends, stock splits or recapitalizations) and (ii) the closing of the Company's sale of all or substantially all of its assets or the acquisition of the Company by another entity by means of merger or consolidation resulting in the exchange of the outstanding shares of the Company's capital stock for securities or consideration issued, or caused to be issued, by the acquiring entity or its subsidiary.

7.5 OWNERSHIP. Each Founder represents and warrants that he is the sole legal and beneficial owner of the shares of stock subject to this Agreement and that no other person has any interest (other than a community property interest) in such shares.

7.6 NOTICES. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given upon personal delivery to the party to be notified or five days after deposit in the United States mail, by registered or certified mail, postage prepaid and properly addressed to the party to be notified as set forth on the signature page hereof or at such other address as such party may designate by ten (10) days' advance written notice to the other parties hereto.

7.7 SEVERABILITY. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, and

this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

7.8 ATTORNEYS' FEES. In the event that any dispute among the parties to this Agreement should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

7.9 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The parties contemplate that Additional Closings may occur under the Purchase Agreement by which additional shares of Series E Preferred Stock will be sold to certain investors. Such new investors shall become party to this Agreement by executing counterpart signature pages and no further signature shall be required by the Company, the Founders, the Existing Investors or the New Investors. Such investors shall be deemed to be "New Investors" and "Stockholders" under this Agreement for all purposes hereunder.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY: DIGIRAD CORPORATION,
a Delaware corporation

By: /s/ Scott Huennekens

Scott Huennekens, President

FOUNDERS: JACK F. BUTLER

By: /s/ Jack F. Butler

Jack F. Butler

Address: 16650 Las Cuestas
Rancho Santa Fe, CA 92067

CLINTON L. LINGREN

By: /s/ Clinton L. Lingren

Clinton L. Lingren

Address: 6211 Hannon Ct.
San Diego, CA 92117

GERALD G. LOEHR SEPARATE PROPERTY
TRUST U.S. TRUST COMPANY, N.A.,
CO-TRUSTEE

By: /s/ STEVE VOLK 11/8/00

Steve Volk, CTFA
Its: VICE PRESIDENT &
SENIOR TRUST OFFICER

[SIGNATURE PAGE TO AMENDED AND
RESTATED CO-SALE AGREEMENT]

GERALD G. AND LINDA J. LOEHR FAMILY
TRUST

By: /s/ Linda Loehr

Trustee

By:

Trustee

Address: P.O. Box 675207
Rancho Santa Fe, CA 92067

EXISTING INVESTORS: KINGSBURY CAPITAL PARTNERS, L.P., III
KINGSBURY CAPITAL PARTNERS, L.P.
KINGSBURY CAPITAL PARTNERS, L.P. II

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

SORRENTO GROWTH PARTNERS I, L.P.

By: Sorrento Equity Growth
Partners I, L.P.,
Its General Partner

By: Sorrento Associates, Inc.,
Its General Partner

By: /s/ Robert M. Jaffe

Robert M. Jaffee, President

[SIGNATURE PAGE TO AMENDED AND
RESTATED CO-SALE AGREEMENT]

SORRENTO VENTURES II, L.P.

By: Sorrento Equity Partners, L.P.,
Its General Partner

By: Sorrento Associates, Inc.,
Its General Partner

By: /s/ Robert M. Jaffee

Robert M. Jaffee, President

SORRENTO VENTURES III, L.P.

By: Sorrento Equity Partners, III, L.P.,
Its General Partner

By: Sorrento Associates, Inc.,
Its General Partner

By: /s/ Robert M. Jaffee

Robert M. Jaffee, President

SORRENTO VENTURES CE, L.P.

By: Sorrento Equity Partners, III, L.P.,
Its General Partner

By: Sorrento Associates, Inc.,

Its General Partner

By: /s/ Robert M. Jaffee

Robert M. Jaffee, President

Address: 4370 La Jolla Village Drive, Suite 1040
San Diego, CA 92122

[SIGNATURE PAGE TO AMENDED AND RESTATED CO-SALE AGREEMENT]

VECTOR LATER-STAGE EQUITY FUND, L.P.

By: Vector Fund Management, II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

VECTOR LATER-STAGE EQUITY FUND II, L.P.

By: Vector Fund Management, II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

VECTOR LATER-STAGE EQUITY FUND II (Q.P.), L.P.

By: Vector Fund Management, II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

[SIGNATURE PAGE TO AMENDED AND RESTATED CO-SALE AGREEMENT]

HEALTH CARE INDEMNITY, INC.

By: Columbia/HCA Healthcare Corporation
Its: Investment Advisor

By: /s/ James T. Glasscock

Name: James T. Glasscock

Its: VP, Investment

Address: One Park Plaza
Post Office Box 550
Nashville, TN 37202-0550

OCEAN AVENUE INVESTORS, LLC -
ANACAPA FUND

By: /s/ Michael Browne

Michael Browne
Manager

OCEAN AVENUE INVESTORS, LLC -
FOUNDERS FUND

By: /s/ Michael Browne

Michael Browne
Manager

OCEAN AVENUE INVESTORS, LLC -
REDSTONE FUND

By: /s/ Michael Browne

Michael Browne
Manager

Address: 100 Wilshire Boulevard, Suite 1850
Santa Monica, CA 90401

[SIGNATURE PAGE TO AMENDED AND
RESTATED CO-SALE AGREEMENT]

NEW INVESTORS: KINGSBURY CAPITAL PARTNERS, L.P., III

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

KINGSBURY CAPITAL PARTNERS, L.P., IV

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

VECTOR LATER-STAGE EQUITY FUND II
(QP), L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

[SIGNATURE PAGE TO AMENDED AND
RESTATED CO-SALE AGREEMENT]

VECTOR LATER-STAGE EQUITY FUND II, L.P.

By: Vector Fund Management, II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

OCEAN AVENUE INVESTORS, LLC -
ANACAPA FUND I

By: /s/ Michael Browne

Michael Browne
Manager

Address: 100 Wilshire Boulevard, Suite 1850
Santa Monica, CA 90401

HEALTH CARE INDEMNITY, INC.

By: Columbia/HCA Healthcare Corporation
Its: Investment Advisor

By: /s/ James Glasscock

Name: James T. Glasscock

Its: VP, Investments

Address: One Park Plaza
Post Office Box 550
Nashville, TN 37202-0550

[SIGNATURE PAGE TO AMENDED AND
RESTATED CO-SALE AGREEMENT]

AUREUS DIGIRAD, LLC

By: /s/ Robert M. Averick

Name: Robert M. Averick

Its: Member

Address: 100 First Stamford Place
Stamford, CT 06902

MERRILL LYNCH VENTURES, LLC

By: /s/ Edward J. Higgins

Edward J. Higgins
Vice President

Address: 2 World Financial Center, 23rd Floor
New York, NY 10281
Attn: Robert F. Tully

[SIGNATURE PAGE TO AMENDED AND
RESTATED CO-SALE AGREEMENT]

MID CAROLINA CARDIOLOGY, PA

By: /s/ Stephen A. McAdams MD

Its: Chief Executive Officer

Name: Stephen A. McAdams

Address: 1718 East 4th Street, Suite 901
Charlotte, NC 28277
Attn: Stephen A. McAdams

STEPHEN ALAN MCADAMS AND LOU ANN MCADAMS, AS JOINT TENANTS

By: /s/ Stephen Alan McAdams

Stephen Alan McAdams

By: /s/ Lou A. McAdams

Lou Ann McAdams

Address: 4901 Old Course Drive
Charlotte, NC 28277

[SIGNATURE PAGE TO AMENDED AND RESTATED CO-SALE AGREEMENT]

AKINYELE ALUKO, M.D.

/s/ Akinyele Aluko

Akinyele Aluko, M.D.

Address: 5725 Laurium Road
Charlotte, NC 28226

HARVEY FAMILY LLC

By: /s/ John Harvey

John Harvey
Manager

Address: 2305 NW Grand Boulevard
Oklahoma City, OK 73116

GFP DIGIRAD, LLC

By: /s/ ILLEGIBLE

Its: Managing Member

Name: ILLEGIBLE

Address: 4000 West Brown Deer Road
Milwaukee, WI 53209-1221

DR. JEROME WILLIAMS, JR.

By: /s/ Jerome Williams, Jr.

Its:

Name:

Address: 4543 Rosecliff Drive
Charlotte, NC 28277

[SIGNATURE PAGE TO AMENDED AND RESTATED CO-SALE AGREEMENT]

DWAYNE A. SCHMIDT

/s/ Dwayne Schmidt

Dwayne A. Schmidt

Address: 327 Northwest 14th Street
Oklahoma City, OK 73103

[SIGNATURE PAGE TO AMENDED AND RESTATED CO-SALE AGREEMENT]

FISK VENTURES LLC

By: /s/ ILLEGIBLE

Its: Manager

Address: 4041 North Main Street
Post Office Box 1919
Racine, Wisconsin 53401-1919

INGLEWOOD VENTURES, LP

By: /s/ Daniel C. Wood

Its: Member

Address: 12526 High Bluff Drive, Suite 300
San Diego, CA 92130

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL FOUNDATION INVESTMENT FUND, INC.

By: /s/ Mark W. Yusko

Mark W. Yusko

Its: Assistant Treasurer

Address: 308 West Rosemary Street, Suite 203
Chapel Hill, NC 27516

PALIVACINNI PARTNERS, LLC

By: /s/ Peter K. Shagory

Peter K. Shagory

Its: Manager

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

[SIGNATURE PAGE TO AMENDED AND RESTATED CO-SALE AGREEMENT]

CONSENT OF SPOUSE
(FOR SHARES OF STOCK HELD BY INDIVIDUALS)

I acknowledge that I have read the foregoing Amended and Restated Co-Sale Agreement and that I know its contents. I am aware that by its provisions if I and/or my spouse agree to sell all or part of the shares of the Company held of record by either or both of us, including my community interest in such shares, if any, co-sale rights (as described in the Amended and Restated Co-Sale Agreement) must be granted to the Stockholders by the seller. I hereby agree that those shares and my interest in them, if any, are subject to the provisions of the Amended and Restated Co-Sale Agreement and that I will take no action at any time to hinder operation of, or violate, the Amended and Restated Co-Sale Agreement.

/s/ Sharon Lingren

(Signature of Spouse)

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(FOR SHARES OF STOCK HELD BY INDIVIDUALS)

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/s/ Lou A. McAdams

(Signature of Spouse)

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(FOR SHARES OF STOCK HELD BY INDIVIDUALS)

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agree that those shares and my interest in them, if any, are subject to the provisions of the Amended and Restated Co-Sale Agreement and that I will take no action at any time to hinder operation of, or violate, the Amended and Restated Co-Sale Agreement.

/s/ ILLEGIBLE

(Signature of Spouse)

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(FOR SHARES OF STOCK HELD BY INDIVIDUALS)

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/s/ ILLEGIBLE

(Signature of Spouse)

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(FOR SHARES OF STOCK HELD BY INDIVIDUALS)

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/s/ ILLEGIBLE

(Signature of Spouse)

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(FOR SHARES OF STOCK HELD BY INDIVIDUALS)

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/s/ ILLEGIBLE

(Signature of Spouse)

SCHEDULE A

FOUNDERS

Jack F. Butler, Sr.
Clinton L. Lingren
Gerald G. Loehr Trust
Gerald G. and Linda J. Loehr Family Trust

EXISTING INVESTORS

Vector Later-Stage Equity Fund, L.P.
Vector Later-Stage Equity Fund II, L.P.
Vector Later-Stage Equity Fund II (Q.P.), L.P.
Furman Selz SBIC L.P.
Sorrento Growth Partners I, L.P.
Sorrento Ventures II, L.P.
Sorrento Ventures III, L.P.
Sorrento Ventures CE, L.P.
Kingsbury Capital Partners, L.P.
Kingsbury Capital Partners, L.P., II
Kingsbury Capital Partners, L.P., III
Jack F. Butler, Sr.
Gerald G. Loehr Trust
William L. Ashburn
Karen A. Klause
Kenneth E. Olson Trust
Peter T. Dunn
Dunn Family Trust
Nathan P. Dunn
Kyla E. Dunn
The Arthur & Sophie Brody Revocable Trust DTD 04/13/89
Malin Burnham
Philip L. Elkus Trust DTD 09/09/74
Elliot Feuerstein Trust DTD 05/14/82
Stanley and Maxine Firestone Trust DTD 12/02/88
Ira R. and Joan P. Katz Qualified Marital Trust
Knowles Family Trust
The SDL Trust
Arthur E. Nicholas
The Stanley E. and Pauline M. Foster Trust DTD 07/31/81
Page Trust DTD 03/03/89
Forrest N. Shumway & Patricia K. Shumway Trust DTD 04/26/94
Derbes Family Trust U/D/T 04/25/86

EXISTING INVESTORS (CONTINUED)

Sutro Investment Partners V., LLC
SBSF Biotechnology Fund, L.P.
SBSF Biotechnology Partners Fund, L.P.
ABS Employees' Venture Fund Limited Partnership
JAFCO Co., Ltd.
JAFCO R-3 Investment Enterprise Partnership
JAFCO JS3 Investment Enterprise Partnership
JAFCO G-6 (A) Investment Enterprise Partnership
JAFCO G-6 (B) Investment Enterprise Partnership
JAFCO G-7 (A) Investment Enterprise Partnership
JAFCO G-7 (B) Investment Enterprise Partnership
Johnson & Johnson Development Corporation
Health Care Indemnity, Inc.
Mitsui & Co., Ltd.
MVC Global Japan Fund I
Ocean Avenue Investors, LLC - Founders Fund
Ocean Avenue Investors, LLC - Redstone Fund
Ocean Avenue Investors, LLC - Anacapa Fund I

NEW INVESTORS

Kingsbury Capital Partners L.P., III
Kingsbury Capital Partners L.P., IV
Vector Later-Stage Equity Fund II, L.P.
Vector Later-Stage Equity Fund II (Q.P.), L.P.
Health Care Indemnity, Inc.
Ocean Avenue Investors, LLC - Acacapa Fund
Aureus Digirad, LLC
Merrill Lynch Ventures, LLC

Mid Carolina Cardiology, PA
Stephen Alan McAdams and Lou Ann McAdams, As Joint Tenants
Akinyele Aluko, M.D.
Harvey Family LLC
GFP Digirad
Dr. Jerome Williams, Jr.
Dwayne A. Schmidt
Richard N. Linder and Judy F. Linder
Fisk Ventures LLC
IngleWood Ventures, LP
The University of North Carolina at Chapel Hill
Foundation Investment Fund, Inc.
Palivacinni Partners, LLC

EXHIBIT 10.21

AMENDED AND RESTATED
SERIES E VOTING AGREEMENT

This AMENDED AND RESTATED SERIES E VOTING AGREEMENT (this "Agreement") is made as of this 10th day of November 2000 by and among Digirad Corporation, a Delaware corporation (the "Company"), holders of a majority of the Series E Preferred Stock of the Company identified on SCHEDULE A attached hereto under the heading "Existing Investors" (the "Existing Investors") and each of the purchasers of the Series E Preferred Stock of the Company identified on SCHEDULE A attached hereto under the heading "New Investors" (the "New Investors"). The Existing Investors and the New Investors are collectively referred to herein as, individually, an "Investor" and, collectively, the "Investors."

RECITALS

A. The Company has previously sold and issued shares of its Series E Preferred Stock to the Existing Investors, pursuant to which the Existing Investors have become parties to that certain Series E Voting Agreement dated June 23, 1998, as amended by that certain Amendment Number One to the Series E Voting Agreement dated March 15, 2000 and that certain Addendum to Amendment Number One to the Series E Voting Agreement dated April 6, 2000 (collectively, the "Voting Agreement");

B. The Company desires to sell and issue shares of its Series E Preferred Stock pursuant to that certain Fourth Additional Series E Preferred Stock Purchase Agreement of even date herewith (the "Purchase Agreement"); and

C. As an inducement to the New Investors to purchase shares of its Series E Preferred Stock, the Company and the Existing Investors all desire to completely amend and restate the Voting Agreement pursuant to Section 2(d) with respect to the matters set forth therein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants contained herein it is hereby agreed:

1. VOTING OF SHARES.

(a) Only with respect to a proposal submitted for stockholder vote for matters on which the Series E Preferred Stock has a separate series voting right as provided by applicable law (a "Stockholder Proposal"), each Investor agrees to vote its shares of Series E Preferred Stock in connection with such separate series voting right for or against such Stockholder Proposal in the same proportion as a majority of the then outstanding shares of all series of Preferred Stock (voting as a single class) are voted or abstain.

(b) Notwithstanding subsection (a) above, (i) with respect to any proposal submitted for stockholder vote that meets the criteria set forth in Article IV, Section B(8)(d) of the Amended and Restated Certificate of Incorporation, the Investor will not be subject to the restrictions of subsection(a) above.

2. SUCCESSORS AND ASSIGNS. This Agreement shall bind each Investor and each and all of the heirs, executors, administrators, personal representatives, successors, and assigns thereof, and shall inure to the benefit of the Investor, and its permitted transferees.

3. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which taken together shall constitute one instrument. The parties contemplate that Additional Closings may occur under the Purchase Agreement by which additional shares of Series E Preferred Stock will be sold to certain investors. Such new investors shall become party to this Agreement by executing counterpart signature pages and no further signature shall be required by the Company, the Existing Investors or the New Investors. Such investors shall be deemed to be "New Investors" and "Investors" under this Agreement for all purposes hereunder.

4. SEVERABILITY. If in any judicial proceedings, a court shall refuse to enforce any of the provisions of this Agreement, then such unenforceable provision shall be deemed modified or limited so as to effectuate, to the maximum extent possible, the parties' expressed intent, and if no such modification or limitation could render it enforceable it shall be eliminated from this Agreement, and the balance of this Agreement shall be interpreted as if such provision were so eliminated and shall be enforceable in accordance with its terms.

5. ENTIRE AGREEMENT. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof, and supercedes all prior agreements with regard to such subjects.

6. AMENDMENTS. This Agreement may not be amended, modified or terminated, except with the written consent of the Company and Investors holding a majority in interest of the Series E Preferred Stock.

7. GOVERNING LAW. This Agreement shall be governed by the internal laws of the State of Delaware without regard to principles of conflict of laws.

8. REMEDIES. Each of the parties hereby acknowledges and agrees that the legal remedies available, in the event the covenants and agreements made in this Agreement are violated, would be inadequate and that any party shall be entitled, without posting any bond or other security, to temporary, preliminary and permanent injunctive relief, specific performance and other equitable remedies in the event of such a violation, in addition to any other remedies which such party may have at law or in equity.

9. ATTORNEYS' FEES. In any legal proceeding arising out of this Agreement, including with respect to any instrument, document or agreement made under or in connection with this Agreement, the prevailing party shall be entitled to recover its costs and actual attorneys' fees. As used in this Agreement, "actual attorneys' fees" shall mean the full and actual cost of any legal services actually performed in connection with the matters involved, calculated on the basis of the usual hourly fees charged by the attorneys performing such services.

IN WITNESS WHEREOF, the undersigned have caused this agreement to be signed as of the date first set forth above.

COMPANY: DIGIRAD CORPORATION:

By: /s/ Scott Huennekens

Scott Huennekens, President

Address: 9350 Trade Place
San Diego, CA 92126-6334

EXISTING INVESTORS: KINGSBURY CAPITAL PARTNERS, L.P., III
KINGSBURY CAPITAL PARTNERS, L.P.
KINGSBURY CAPTIAL PARTNERS, L.P. II

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

SORRENTO GROWTH PARTNERS I, L.P.

By: Sorrento Equity Growth Partners I, L.P.,
Its General Partner

By: Sorrento Associates, Inc.,
Its General Partner

By: /s/ Robert M. Jaffee

Robert M. Jaffee, President

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SORRENTO VENTURES II, L.P.

By: Sorrento Equity Partners, L.P.,
Its General Partner

By: Sorrento Associates, Inc.,
Its General Partner

By: /s/ Robert M. Jaffee

Robert M. Jaffee, President

SORRENTO VENTURES III, L.P.

By: Sorrento Equity Partners, III, L.P.,
Its General Partner

By: Sorrento Associates, Inc.,
Its General Partner

By: /s/ Robert M. Jaffee

Robert M. Jaffee, President

SORRENTO VENTURES CE, L.P.

By: Sorrento Equity Partners, III, L.P.,
Its General Partner

By: Sorrento Associates, Inc.,
Its General Partner

By: /s/ Robert M. Jaffe

Robert M. Jaffee, President

Address: 4370 La Jolla Village Drive, Suite 1040
San Diego, CA 92122

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VECTOR LATER-STAGE EQUITY FUND, L.P.

By: Vector Fund Management, II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

VECTOR LATER-STAGE EQUITY FUND II, L.P.

By: Vector Fund Management, II, L.L.C.
Its General Partner

By: /s/ Douglas Reed
Douglas Reed, M.D.

Managing Director

VECTOR LATER-STAGE EQUITY FUND II
(Q.P.), L.P.

By: Vector Fund Management, II, L.L.C.
Its General Partner

By: /s/ Douglas Reed
K. Flynn McDonald

Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

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HEALTH CARE INDEMNITY, INC.

By: Columbia/HCA Healthcare Corporation
Its: Investment Advisor

By: /s/ James T. Glasscock

Name: James T. Glasscock

Its: VP, Investments

Address: One Park Plaza
Post Office Box 550
Nashville, TN 37202-0550

OCEAN AVENUE INVESTORS, LLC -
ANACAPA FUND

By: /s/ Michael Browne

Michael Browne
Manager

OCEAN AVENUE INVESTORS, LLC -
FOUNDERS FUND

By: /s/ Michael Browne

Michael Browne
Manager

OCEAN AVENUE INVESTORS, LLC -
REDSTONE FUND

By: /s/ Michael Browne

Michael Browne
Manager

Address: 100 Wilshire Boulevard, Suite 1850
Santa Monica, CA 90401

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NEW INVESTORS: KINGSBURY CAPITAL PARTNERS, L.P., III

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

KINGSBURY CAPITAL PARTNERS, L.P., IV

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

VECTOR LATER-STAGE EQUITY FUND II
(QP), L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

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VECTOR LATER-STAGE EQUITY FUND II, L.P.

By: Vector Fund Management, II, L.L.C.
Its General Partner

By: /s/ Douglas Reed

Douglas Reed, M.D.
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

OCEAN AVENUE INVESTORS, LLC -
ANACAPA FUND I

By: /s/ Michael Browne

Michael Browne
Manager

OCEAN AVENUE INVESTORS, LLC -
FOUNDERS FUND

By: /s/ Michael Browne

Michael Browne
Manager

OCEAN AVENUE INVESTORS, LLC -
REDSTONE FUND

By: /s/ Michael Browne

Michael Browne
Manager

Address: 100 Wilshire Boulevard, Suite 1850
Santa Monica, CA 90401

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HEALTH CARE INDEMNITY, INC.

By: Columbia/HCA Healthcare Corporation
Its: Investment Advisor

By: /s/ James T. Glasscock

Name: James Glasscock

Its: VP, Investments

Address: One Park Plaza
Post Office Box 550
Nashville, TN 37202-0550

AUREUS DIGIRAD, LLC

By: /s/ Robert M. Averick

Name: Robert Averick

Its: Member

Address: 100 First Stamford Place
Stamford, CT 06902

MERRILL LYNCH VENTURES, LLC

By: /s/ Edward J. Higgins

Edward J. Higgins
Vice President

Address: 2 World Financial Center, 31st Floor
New York, NY 10281

Attn: Robert F. Tully

MID CAROLINA CARDIOLOGY, PA

By: /s/ Stephen A. McAdams MD

Its: Chief Executive Officer

Name: Stephen A. McAdams

Address: 1718 East 4th Street, Suite 901
Charlotte, NC 28277
Attn: Stephen A. McAdams

STEPHEN ALAN MCADAMS AND LOU ANN MCADAMS, AS JOINT TENANTS

By: /s/ Stephen Alan McAdams

Stephen Alan McAdams

By: /s/ Lou Ann McAdams

Lou Ann McAdams

Address: 4901 Old Course Drive
Charlotte, NC 28277

AKINYELE ALUKO, M.D.

/s/ Akinyele Aluko

Akinyele Aluko, M.D.

Address: 5725 Laurium Road
Charlotte, NC 28228

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HARVEY FAMILY LLC

By: /s/ John Harvey

John Harvey, M.D.
Manager

Address: 2305 NW Grand Boulevard
Oklahoma City, OK 73116

GFP DIGIRAD, LLC

By: /s/ illegible

Its: Managing Member

Name: /s/ illegible

Address: 4000 West Brown Deer Road

Milwaukee, WI 53209-1221
Attention: Bruce Gendelman

DR. JEROME WILLIAMS, JR.

/s/ Jerome Williams, Jr.

Dr. Jerome Williams, Jr.

Address: 4534 Rosecliff Drive
Charlotte, NC 28277

DWAYNE A. SCHMIDT

/s/ Dwayne A. Schmidt

Dwayne A. Schmidt

Address: 327 Northwest 14th Street
Oklahoma City, OK 73103

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RICHARD N. LINDER AND JUDY F. LINDER

/s/ Richard N. Linder

Richard N. Linder

/s/ Judy G. Linder

Judy F. Linder

Address: 805 Polo Run
Collierville, TN 38017

FISK VENTURES LLC

By: /s/ illegible

Its: Manager

Address: 4041 North Main Street
Post Office Box 1919
Racine, Wisconsin 53401-1919

INGLEWOOD VENTURES, LP

By: /s/ Daniel C. Wood

Its: Member

Address: 12526 High Bluff Drive, Suite 300
San Diego, CA 92130

THE UNIVERSITY OF NORTH CAROLINA AT
CHAPEL HILL FOUNDATION INVESTMENT
FUND, INC.

By: /s/ Mark W. Yusko

Mark W. Yusko

Its: Assistant Treasurer

Address: 308 West Rosemary Street, Suite 203
Chapel Hill, NC 27516

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PALIVACINNI PARTNERS, LLC

By: /s/ Peter K. Shagory

Peter K. Shagory

Its: Manager

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

KINGSBURY CAPITAL PARTNERS, L.P.

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

KINGSBURY CAPITAL PARTNERS, L.P., II

By: Kingsbury Associates, L.P.,
Its General Counsel

By: /s/ Timothy J. Wollaeger

Timothy J. Wollaeger,
General Partner

Address: 3655 Nobel Drive, Suite 490
San Diego, CA 92122

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ANACAPA INVESTORS, LLC -
ANACAPA I

By: /s/ Rob Raede

Rob Raede
Manager

Address: 32 W. Anapamu, #350
Santa Barbara, CA 93101

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THE ARTHUR & SOPHIE BRODY REVOCABLE TRUST
DATED 4/13/89

By: /s/ illegible

Its: Trustee

Address: 990 Highland Drive, Suite 100
Solana Beach, CA 92075-2472
Attn: Arthur Brody

MALIN BURNHAM

By: /s/ Malin Burnham

Malin Burnham

Address: 610 West Ash Street, Suite 2000
San Diego, CA 92101-3350

DERBES FAMILY TRUST UDT DATED 4/25/86

By: /s/ Daniel W. Derbes

Daniel W. Derbes

Its: Trustee

Address: c/o Signal Ventures
777 South Pacific Coast Highway,
Suite 107
Solana Beach, CA 92075
Attn: Dan Derbes

ELLIOT FEUERSTEIN TRUST DATED 5/14/82

By: /s/ Elliot Feuerstein

Its: Trustee

Address: 8924 Mira Mesa Boulevard
San Diego, CA 92126
Attn: Elliot Feuerstein

STANLEY & MAXINE FIRESTONE TRUST
DATED 12/2/88

By: Stanley Firestone - TTEE

Its: /s/ Stanley Firestone

Address: c/o Malibu Clothes
259 South Beverly Drive
Beverly Hills, CA 90212
Attn: Stanley Firestone

THE STANLEY E. AND PAULINE M. FOSTER TRUST
DATED 7/31/81

By: /s/ Stanley Foster

Its: Trustee

Address: 705 12th Avenue
San Diego, CA 92101
Attn: Stanley E. Foster

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JOAN P. KATZ TRUSTEE OF NON-EXEMPT TRUST
"C" UNDER IRA R. & JOAN K. KATZ QUALIFIED
MARITAL TRUST

By: /s/ Joan P. Katz

Its: Trustee

Address: c/o Evergreen Wealth Management
7911 Herschel Avenue, #311
La Jolla, CA 92037
Attn: Alan Aielo

KNOWLES FAMILY TRUST

By: /s/ illegible

Its: Trustee

Address: c/o Wall Street Property Company
1250 Prospect Avenue, Suite 200
La Jolla, CA 92038
Attn: Raymond V. Knowles

ARTHUR E. NICHOLAS

By: /s/ Arthur Nicholas

Its:

Address: c/o Nicholas-Applegate Capital
Management
600 West Broadway, 29th Floor
San Diego, CA 92101
Attn: Maureen Brown

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PAGE TRUST DATED 3/3/89

By: /s/ illegible

Its: Trustee

Address: 1904 Hidden Crest Drive
El Cajon, CA 92019
Attn: Tom Page

FORREST N. SHUMWAY & PATRICIA K. SHUMWAY

MARITAL TRUST DTD 4/26/94

By: /s/ Forrest Shumway

Its:

Address: 9171 Towne Centre Drive, Suite 410
San Diego, CA 92122-1238
Attn: Forrest N. Shumway

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SCHEDULE A

EXISTING INVESTORS
Johnson & Johnson Development Corporation
Kingsbury Capital Partners L.P., III
Sorrento Growth Partners I, L.P.
Sorrento Ventures II, L.P.
Sorrento Ventures III, L.P.
Sorrento Ventures CE, L.P.
Vector Later-Stage Equity Fund, L.P.
Vector Later-Stage Equity Fund II, L.P.
Vector Later-Stage Equity Fund II (Q.P.), L.P.
Ocean Avenue Investors - Founders Fund
Ocean Avenue Investors - Redstone Fund
Ocean Avenue Investors - Anacapa Fund I
Health Care Indemnity, Inc.
Mitsui & Co., Ltd.
MVC Global Japan Fund I
Page Trust DTD 03/03/89
Elliot Feuerstein Trust DTD 05/14/82

NEW INVESTORS
Kingsbury Capital Partners L.P., III
Kingsbury Capital Partners L.P., IV
Vector Later-Stage Equity Fund II, L.P.
Vector Later-Stage Equity Fund II (Q.P.), L.P.
Ocean Avenue Investors, LLC - Anacapa Fund I
Health Care Indemnity, Inc.
Aureus Digirad, LLC
Merrill Lynch Ventures, LLC
Mid Carolina Cardiology, PA
Stephen Alan McAdams and Lou Ann McAdams, As Joint Tenants
Akinyele Aluko, M.D.
Harvey Family LLC
GFP Digirad
Dr. Jerome Williams, Jr.
Dwayne A. Schmidt
Richard N. Linder and Judy F. Linder
Fisk Ventures LLC
Inglewood Ventures, LP
The University of North Carolina at Chapel Hill
Foundation Investment Fund, Inc.
Palivaccini Partners, LLC
Kingsbury Capital Partners L.P.,
Kingsbury Capital Partners L.P., II
Anacapa Investors, LLC - Anacapa I
Kingsbury Capital Partners, L.P.
Kingsbury Capital Partners, L.P. II

The Arthur & Sophie Brody Revocable Trust dated 4/13/89
Malin Burnham

Derbes Family Trust udt Dated 4/25/86
Elliot Feuerstein Trust Dated 5/14/82
Stanley & Maxine Firestone Trust Dated 12/2/88
The Stanley E. And Pauline M. Foster Trust dtd 7/31/81
Ira R. & Joan P. Katz Qualified Marital Trust
Knowles Family Trust
Arthur E. Nicholas
Page Trust Dated 3/3/89
Forrest N. Shumway & Patricia K.
Shumway Marital Trust DTD 4/26/94

EXHIBIT 10.22

DIGIRAD CORPORATION

1998 STOCK OPTION/STOCK ISSUANCE PLAN
(AMENDED AND RESTATED AS OF MAY 15, 2001)

ARTICLE ONE

GENERAL PROVISIONS

I. PURPOSE OF THE PLAN

This 1998 Stock Option/Stock Issuance Plan is intended to promote the interests of Digirad Corporation by providing eligible persons with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in the service of the Corporation.

Capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

II. STRUCTURE OF THE PLAN

A. The Plan shall be divided into two separate equity programs:

- the Discretionary Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock, and

- the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered the Corporation (or any Parent or Subsidiary).

B. The provisions of Articles One and Four shall apply to all equity programs under the Plan and shall govern the interests of all persons under the Plan.

III. ADMINISTRATION OF THE PLAN

A. Except as provided in Paragraph B of this Section III, the Plan shall be administered by the Board or one or more committees appointed by the Board, provided that (1) beginning with the Section 12 Registration Date, the Primary Committee shall have sole and exclusive authority to administer the Plan with respect to Section 16 Insiders, and (2) administration of the Plan may otherwise, at the Board's discretion, be vested in the Primary Committee or a Secondary Committee.

B. Members of the Primary Committee or any Secondary Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of any Secondary Committee and reassume all powers and authority previously delegated to such committee.

C. Each Plan Administrator shall, within the scope of its administrative functions under the Plan, have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for proper administration of the Discretionary Option Grant and Stock Issuance Programs and to make such determinations under, and issue such interpretations of, the provisions of such programs and any outstanding options or stock issuances thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties who have an interest in the Discretionary Option Grant and Stock Issuance Programs under its jurisdiction or any option or stock issuance thereunder.

D. Service on the Primary Committee or the Secondary Committee shall constitute service as a Board member, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Primary Committee or the Secondary Committee shall be liable for any act or omission made in good faith with respect to the Plan or any option grants or stock issuances under the Plan.

IV. ELIGIBILITY

A. The persons eligible to participate in the

Discretionary Option Grant and Stock Issuance Programs are as follows:

(i) Employees,

(ii) non-employee members of the Board or the board of directors of any Parent or Subsidiary, and

(iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. Each Plan Administrator shall, within the scope of its administrative jurisdiction under the Plan, have full authority to determine, (i) with respect to the option grants under the Discretionary Option Grant Program, which eligible persons are to receive option grants, the time or times when such option grants are to be made, the number of shares to be covered by each such grant, the status of the granted option as either an Incentive Option or a Non-Statutory Option, the time or times when each option is to become exercisable, the vesting schedule (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding and (ii) with respect to stock issuances under the Stock Issuance Program, which eligible persons are to receive stock issuances, the time or times when such issuances are to be made, the number of shares to be issued to each Participant, the vesting schedule (if any) applicable to the issued shares and the consideration for such shares.

C. The Plan Administrator shall have the absolute discretion either to grant options in accordance with the Discretionary Option Grant Program or to effect stock issuances in accordance with the Stock Issuance Program.

V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock initially reserved for issuance over the term of the Plan shall not exceed 5,420,659 shares. Such share reserve includes (i) 1,720,659 shares that were initially reserved for issuance by the Board on December 17, 1998 and approved by the stockholders on February 1, 1999, plus (ii) an additional 1,000,000 shares that were approved for issuance by the Board on March 9, 2000 and by the stockholders on November 14, 2000, plus (iii) an additional 1,200,000 shares that were approved for issuance by the Board and stockholders on November 14, 2000, plus (iii) an additional 1,500,000 shares that were approved for issuance by the Board on May 15, 2001 and by the stockholders on June 25, 2001. Such 5,420,659 share reserve shall be in addition to the 2,734,201 shares issued or reserved for issuance under the Corporation's 1997 Stock Option/Stock Issuance Plan.

B. Shares of Common Stock subject to outstanding options shall be available for subsequent issuance under the Plan to the extent those options expire or terminate for any reason prior to exercise in full. Unvested shares issued under the Plan and subsequently cancelled or repurchased by the Corporation, at the original issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan.

C. If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the number and/or class of securities for which any one person may be granted stock options, separately exercisable stock appreciation rights and direct stock issuances under this Plan per calendar year, and (iii) the number and/or class of securities and the exercise price per share in effect under each outstanding option under the Plan. Such adjustments to the outstanding options are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments deter-mined by the Plan Administrator shall be final, binding and conclusive.

ARTICLE TWO

DISCRETIONARY OPTION GRANT PROGRAM

I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing

an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

A. EXERCISE PRICE.

1. The exercise price per share shall be fixed by the Plan Administrator but shall not be less than eighty-five percent (85%) of the Fair Market Value per share of Common Stock on the option grant date, provided that the Plan Administrator may fix the exercise price at less than 85% if the optionee, at the time of the option grant, shall have made a payment to the Company (including payment made by means of a salary reduction) equal to the excess of the Fair Market Value of the Common Stock on the option grant date over such exercise price.

2. The exercise price shall become immediately due upon exercise of the option and may, subject to the provisions of Section I of Article Four and the documents evidencing the option, be payable in one or more of the forms specified below:

(i) cash or check made payable to the Corporation,

(ii) with respect to the exercise of options after the Section 12 Registration Date, shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(iii) with respect to the exercise of options for vested shares after the Section 12 Registration Date and to the extent the sale complies with all applicable laws relating to the regulation and sale of securities, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable written instructions to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise, and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. EXERCISE AND TERM OF OPTIONS. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of ten (10) years measured from the option grant date.

C. EFFECT OF TERMINATION OF SERVICE.

1. The following provisions shall govern the exercise of any options held by the Optionee at the time of cessation of Service or death:

(i) Any option outstanding at the time of the Optionee's cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the option (which shall in no event be less than six (6) months in the case of death or disability nor less than thirty (30) days in the case of any other cessation of Service), provided no such option shall be exercisable after the expiration of the option term.

(ii) Any option exercisable in whole or in part by the Optionee at the time of death may be subsequently exercised by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution.

(iii) Subject to clause C.2.(ii) below of this Section I, during the applicable post-Service exercise

period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised.

2. The Plan Administrator shall have complete discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service from the limited exercise period otherwise in effect for that option to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term, and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested shares of Common Stock for which such option is exercisable at the time of the Optionee's cessation of Service but also with respect to one or more additional installments in which the Optionee would have vested had the Optionee continued in Service.

D. STOCKHOLDER RIGHTS. The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

E. REPURCHASE RIGHTS. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock and to reserve the right to repurchase any or all of those unvested shares should the optionee thereafter cease to be in Service to the Corporation. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

F. LIMITED TRANSFERABILITY OF OPTIONS. During the lifetime of the Optionee, options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or by the laws of descent and distribution following the Optionee's death.

II. INCENTIVE OPTIONS

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Four shall be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options when issued under the Plan shall not be subject to the terms of this Section II.

A. ELIGIBILITY. Incentive Options may only be granted to Employees.

B. EXERCISE PRICE. The exercise price per share shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

C. DOLLAR LIMITATION. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars ($100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

D. 10% STOCKHOLDER. If any Employee to whom an Incentive Option is granted is a 10% Stockholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five (5) years measured from the option grant date.

III. CANCELLATION AND REGRANT OF OPTIONS

The Plan Administrator shall have the authority to effect, at any time and from time to time, with the consent of the affected option holders, the cancellation of any or all outstanding options under the Discretionary Option Grant Program and to grant in substitution new options covering the same or different number of shares of Common Stock but with an exercise price per share based on the Fair Market Value per share of Common Stock on the new grant date.

ARTICLE THREE

STOCK ISSUANCE PROGRAM

I. STOCK ISSUANCES

Shares of Common Stock may be issued under the Stock Issuance Program through direct and immediate issuances without any intervening option grants. Each such stock issuance shall be evidenced by a Stock Issuance Agreement which complies with the terms specified below.

II. STOCK ISSUANCE TERMS

A. PURCHASE PRICE.

1. The purchase price per share shall be fixed by the Plan Administrator, but shall not be less than eighty-five percent (85%) of the Fair Market Value per share of Common Stock on the issuance date.

2. Subject to the provisions of Section I of Article Four, shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

(i) cash or check made payable to the Corporation, or

(ii) past services rendered to the Corporation (or any Parent or Subsidiary).

B. VESTING PROVISIONS.

1. Shares of Common Stock issued under the Stock Issuance Program may, in the discretion of the Plan Administrator, be fully and immediately vested upon issuance or may vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. The elements of the vesting schedule applicable to any unvested shares of Common Stock issued under the Stock Issuance Program, namely:

(i) the Service period to be completed by the Participant or the performance objectives to be attained,

(ii) the number of installments in which the shares are to vest,

(iii) the interval or intervals (if any) which are to lapse between installments, and

(iv) the effect which death, Permanent Disability or other event designated by the Plan Administrator is to have upon the vesting schedule,

shall be determined by the Plan Administrator and incorporated into the Stock Issuance Agreement.

2. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to the Participant's unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant's unvested shares of Common Stock and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

3. The Participant shall have full stockholder

rights with respect to any shares of Common Stock issued to the Participant under the Stock Issuance Program, whether or not the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

4. Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock issued under the Stock Issuance Program or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent (including the Participant's purchase-money indebtedness), the Corporation shall repay to the Participant the cash consideration paid for the surrendered shares and shall cancel the unpaid principal balance of any outstanding purchase-money note of the Participant attributable to the surrendered shares.

5. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the Participant's interest in the shares as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

ARTICLE FOUR

MISCELLANEOUS

I. FINANCING

The Plan Administrator may permit any Optionee or Participant to pay the option exercise price under the Discretionary Option Grant Program or the purchase price of shares issued under the Stock Issuance Program by delivering a full-recourse, interest bearing

promissory note payable in one or more installments. The terms of any such promissory note (including the interest rate and the terms of repayment) shall be established by the Plan Administrator in its sole discretion. In no event may the maximum credit available to the Optionee or Participant exceed the sum of (i) the aggregate option exercise price or purchase price payable for the purchased shares plus (ii) any Federal, state and local income and employment tax liability incurred by the Optionee or the Participant in connection with the option exercise or share purchase.

II. SHARE ESCROW/LEGENDS

Unvested shares issued under the Plan may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Participant's interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

III. CORPORATE TRANSACTION

A. Except as otherwise provided in the agreements evidencing an option, each outstanding option under the Discretionary Option Grant Program shall automatically accelerate in the event of a Corporate Transaction so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully-vested shares of Common Stock, provided that an outstanding option shall not so accelerate if and to the extent: (i) such option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation (or parent thereof) or to be replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof), (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested option shares at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to those option shares or (iii) the acceleration of such option is subject to other limitations imposed by the Plan Administrator at the time of the option grant. The determination of option comparability under clause (i) above shall be made by the Plan Administrator, and its determination shall be final, binding and conclusive.

B. Except as otherwise provided in the agreements creating the repurchase rights, outstanding repurchase rights, if any, shall terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, provided that such repurchase right shall not lapse to the extent: (i) those repurchase rights are to be assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the option is issued or the repurchase right is created.

C. Immediately following the consummation of the Corporate Transaction, all outstanding options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments to reflect such Corporate Transaction shall also be made to (i) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same, (ii) the maximum number and/or class of securities available for issuance over the remaining term of the Plan and (iii) the maximum number and/or class of securities for which any one person may be granted stock options, separately exercisable stock appreciation rights and direct stock issuances under the Plan per calendar year.

E. Repurchase rights which are assigned in connection with a Corporate Transaction shall be exercisable with respect to the property issued to the Optionee of Participant upon consummation of such Corporate Transaction in exchange for the Common Stock held by the Optionee or Participant subject to the repurchase rights immediately prior to the Corporate Transaction.

F. Except as otherwise limited by the Plan Administrator at the time an Option is granted, vesting under outstanding options will automatically accelerate in the event the Optionee's Service subsequently terminates by reason of an Involuntary Termination within twenty-four (24) months following the effective date of any Corporate Transaction in which those options are assumed or replaced and do not otherwise accelerate. Any options so accelerated shall remain exercisable for fully-vested shares until the earlier of (i) the expiration of the option term or (ii) the expiration of the one (1)-year period measured from the effective date of the Involuntary Termination. The portion of any Incentive Option accelerated in connection with a Corporate Transaction or Change in Control shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar limitation is not exceeded and the provisions governing the exercise and holding period are met. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

G. Except as otherwise limited by the Plan Administrator at the time the option is granted under the Discretionary Option Program or the repurchase rights are created, the outstanding repurchase rights with respect to shares held by an Optionee or Participant will automatically lapse and cease to be exercisable in the event the Optionee's or the Participant's Service subsequently terminates by means of an Involuntary Termination within twenty-four (24) months following the effective date of any Corporate Transaction in which those repurchase rights are assigned or otherwise continue.

H. The outstanding options or repurchase rights shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

IV. CHANGE IN CONTROL

A. In the event of any Change in Control, each outstanding option under the Discretionary Option Grant Program shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Change in Control, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully-vested shares of Common

Stock.

B. Outstanding repurchase rights, if any, shall terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Change in Control.

V. VESTING

Notwithstanding any other provision of this agreement, the vesting schedule imposed with respect to any option grant or share issuance shall not result in the Optionee or Participant vesting in fewer than 20% per year for five years from the date of the option grant or share issuance.

VI. TAX WITHHOLDING

A. The Corporation's obligation to deliver shares of Common Stock upon the exercise of options or the issuance or vesting of such shares under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

B. The Plan Administrator may, in its discretion, provide any or all holders of Non-Statutory Options or unvested shares of Common Stock under the Plan with the right to use shares of Common Stock in satisfaction of all or part of the Taxes incurred by such holders in connection with the exercise of their options or the vesting of their shares. Such right may be provided to any such holder in either or both of the following formats:

STOCK WITHHOLDING: The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the exercise of such Non-Statutory Option or the vesting of such shares, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

STOCK DELIVERY: The election to deliver to the Corporation, at the time the Non-Statutory Option is exercised or the shares vest, one or more shares of Common Stock previously acquired by such holder (other than in connection with the option exercise or share

vesting triggering the Taxes) with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

VII. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Plan shall become effective immediately upon the Plan Effective Date. Options may be granted under the Discretionary Option Grant at any time on or after the Plan Effective Date. However, no options granted under the Plan may be exercised, and no shares shall be issued under the Plan, until the Plan is approved by the Corporation's stockholders. If such stockholder approval is not obtained within twelve (12) months after the Plan Effective Date, then all options previously granted under this Plan shall terminate and cease to be outstanding, and no further options shall be granted and no shares shall be issued under the Plan.

B. All options outstanding as of the Plan Effective Date shall be incorporated into the Plan at that time and shall be treated as outstanding options under the Plan. However, each outstanding option so incorporated shall continue to be governed solely by the terms of the documents evidencing such option, and no provision of the Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such incorporated options with respect to their acquisition of shares of Common Stock.

C. The Plan shall terminate upon the earliest of (i) the tenth anniversary of the Plan Effective Date, (ii) the date on which all shares available for issuance under the Plan shall have been issued as fully-vested shares or (iii) the termination of all outstanding options in connection with a Corporate Transaction. Upon such plan termination, all outstanding option grants and unvested stock issuances shall thereafter continue to have force and effect in accordance with the provisions of the documents evidencing such grants or issuances.

VIII. AMENDMENT OF THE PLAN

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect the rights and obligations with respect to stock options or unvested stock issuances at the time outstanding under the Plan unless the Optionee or the Participant consents to such amendment or modification. In addition, certain amendments may require stockholder approval if so determined by the Board or pursuant to applicable laws or regulations.

B. Options to purchase shares of Common Stock may be granted under the Discretionary Option Grant and shares of Common Stock may be issued under the Stock Issuance Program that are in each instance in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued under those programs shall be held in escrow until there is obtained any required approval of an amendment sufficiently increasing the number of shares of Common Stock available for issuance under the Plan. If such approval is not obtained within twelve (12) months after the date the first such excess issuances are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and cease to be outstanding and (ii) the Corporation shall promptly refund to the Optionees and the Participants the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled and cease to be outstanding.

IX. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

X. REGULATORY APPROVALS

A. The implementation of the Plan, the granting of any stock option under the Plan and the issuance of any shares of Common Stock (i) upon the exercise of any granted option or (ii) under the Stock Issuance Program shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the stock options granted under it and the shares of Common Stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which Common Stock is then listed for trading.

XI. NO EMPLOYMENT/SERVICE RIGHTS

Nothing in the Plan shall confer upon the Optionee or the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of the Optionee or the Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

XVII. FINANCIAL REPORTS

The Corporation shall deliver a balance sheet and an income statement at least annually to each individual holding an outstanding option under the Plan, unless such individual is a key Employee whose duties in connection with the Corporation (or any Parent or Subsidiary) assure such individual access to equivalent information.

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APPENDIX

The following definitions shall be in effect under the Plan:

A. BOARD shall mean the Corporation's Board of Directors.

B. CHANGE IN CONTROL shall mean a change in ownership or control of the Corporation effected through either of the following transactions:

(i) the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board does not recommend such stockholders to accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

C. CODE shall mean the Internal Revenue Code of 1986, as amended.

D. COMMON STOCK shall mean the Corporation's common stock.

E. CORPORATE TRANSACTION shall mean either of the following stockholder-approved transactions to which the Corporation is a party:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets.

F. CORPORATION shall mean Digirad Corporation, a Delaware corporation, and its successors.

G. DISCRETIONARY OPTION GRANT PROGRAM shall mean the discretionary option grant program in effect under the Plan.

H. EMPLOYEE shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

I. EXERCISE DATE shall mean the date on which the Corporation shall have received written notice of the option exercise.

J. FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be deemed equal to the closing selling price per share of Common Stock on the date in question, as such price is reported on the Nasdaq National Market or any successor system. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be deemed equal to the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) For purposes of any option grants made on the

Underwriting Date, the Fair Market Value shall be deemed to be equal to the price per share at which the Common Stock is to be sold in the initial public offering pursuant to the Underwriting Agreement.

(iv) For purposes of any option grants made prior to the Underwriting Date, the Fair Market Value shall be determined by the Plan Administrator, after taking into account such factors as it deems appropriate.

K. INCENTIVE OPTION shall mean an option which satisfies the requirements of Code Section 422.

L. INVOLUNTARY TERMINATION shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

(ii) such individual's voluntary resignation following (A) a change in his or her position with the Corporation which materially reduces his or her level of

responsibility, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and participation in any corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without the individual's consent.

M. MISCONDUCT shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of any Optionee, Participant or other person in the Service of the Corporation (or any Parent or Subsidiary).

N. 1934 ACT shall mean the Securities Exchange Act of 1934, as amended.

O. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

P. OPTIONEE shall mean any person to whom an option is granted under the Discretionary Option Grant Program.

Q. PARENT shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

R. PARTICIPANT shall mean any person who is issued shares of Common Stock under the Stock Issuance Program.

S. PERMANENT DISABILITY OR PERMANENTLY DISABLED shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

T. PLAN shall mean the Corporation's 1997 Stock Option/Stock Issuance Plan, as set forth in this document.

U. PLAN ADMINISTRATOR shall mean the particular entity, whether the Primary Committee, the Board or the Secondary Committee, which is authorized to administer the Discretionary Option Grant and Stock Issuance Programs with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction.

V. PLAN EFFECTIVE DATE shall mean the date on which the Plan was adopted by the Board.

W. PRIMARY COMMITTEE shall mean the committee of two (2) or more non-employee Board members appointed by the Board to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders following the Section 12 Registration Date.

X. SECONDARY COMMITTEE shall mean a committee of two (2) or more Board members appointed by the Board to administer any aspect of Plan not required hereunder to be administered by the Primary Committee. The members of the Secondary Committee may be Board members who are Employees eligible to receive discretionary option grants or direct stock issuances under the Plan or any other stock option, stock appreciation, stock bonus or other stock plan of the Corporation (or any Parent or Subsidiary).

Y. SECTION 12 REGISTRATION DATE shall mean the date on which the Common Stock is first registered under Section 12(g) or Section 15 of the 1934 Act.

Z. SECTION 16 INSIDER shall mean an officer or director of the Corporation subject to the short-swing profit liabilities of Section 16 of the 1934 Act.

AA. SERVICE shall mean the performance of services for the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non--employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant or stock issuance.

AB. STOCK EXCHANGE shall mean either the American Stock Exchange or the New York Stock Exchange.

AC. STOCK ISSUANCE AGREEMENT shall mean the agreement entered into by the Corporation and the Participant at the time of issuance of shares of Common Stock under the Stock Issuance Program.

AD. STOCK ISSUANCE PROGRAM shall mean the stock issuance program in effect under the Plan.

AE. SUBSIDIARY shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

AF. TAXES shall mean the Federal, state and local income and employment tax liabilities incurred by the holder of Non-Statutory Options or unvested shares of Common Stock in connection with the exercise of those options or the vesting of those shares.

AG. 10% STOCKHOLDER shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

AH. UNDERWRITING AGREEMENT shall mean the agreement between the Corporation and the underwriter or underwriters managing the initial public offering of the Common Stock.

AI. UNDERWRITING DATE shall mean the date on which the Underwriting Agreement is executed and priced in connection with an initial public offering of the Common Stock.

EXHIBIT 10.23

IMMEDIATELY EXERCISABLE

DIGIRAD CORPORATION
NOTICE OF GRANT OF STOCK OPTION

Notice is hereby given of the following stock option grant (the "Option") pursuant to the 1998 STOCK OPTION/STOCK ISSUANCE PLAN (the "Plan") to purchase shares of the Common Stock of Digirad Corporation (the "Corporation"):

Optionee: _____

Grant Date: _____

Grant Number: _____ Option Price: $_____ per share

Vesting Commencement Date: _____

Number of Option Shares: _____ shares

Expiration Date: _____

Type of Option: Incentive Stock Option ____

Non-Statutory Stock Option ____

DATE EXERCISABLE:
The Option shall be immediately exercisable for all vested and unvested shares.

VESTING SCHEDULE
The Option Shares shall be vest in accordance with the following vesting schedule:

(a) No Option Shares shall vest until the Optionee has completed one full year of Service (as defined in the Plan) measured from the Vesting Commencement Date.

(b) On the first anniversary of the Vesting Commencement Date, 25% of the Option Shares shall become vested.

(c) The balance of the Option Shares shall thereafter vest daily over the next 3 years following the initial vesting of Option Shares pursuant to paragraph (b).

Optionee understands that the Option is granted pursuant to the Corporation's Plan. By signing below, optionee agrees to be bound by the terms and conditions of the Plan and the terms and conditions of the Option as set forth in the Stock Option Agreement attached hereto as Exhibit A. Optionee understands that any Option Shares purchased under the Option

will be subject to the terms and conditions set forth in the Stock Purchase Agreement attached hereto as Exhibit B.

Optionee hereby acknowledges receipt of a copy of the Plan in the form attached hereto as Exhibit C.

REPURCHASE RIGHTS. THE OPTIONEE HEREBY AGREES THAT ALL OPTION SHARES ACQUIRED UPON THE EXERCISE OF THE OPTION SHALL BE SUBJECT TO REPURCHASE RIGHTS AND RIGHTS OF FIRST REFUSAL EXERCISABLE BY THE CORPORATION AND ITS ASSIGNS UPON ANY PROPOSED SALE, ASSIGNMENT, TRANSFER, ENCUMBRANCE OR OTHER DISPOSITION OF THE CORPORATION'S SHARES. THE TERMS AND CONDITIONS OF SUCH RIGHTS ARE SPECIFIED IN THE STOCK PURCHASE AGREEMENT.

NO EMPLOYMENT OR SERVICE CONTRACT. Nothing in this Agreement or in the Plan shall confer upon the Optionee any right to continue in the Service of the Corporation for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation or the Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service at any time for any reason whatsoever, with or without cause.

_____, 199__
Date

DIGIRAD CORPORATION

By:

Title:

Optionee

Address:

EXHIBIT A

STOCK OPTION AGREEMENT

Filed separately as an Exhibit to this Registration Statement

EXHIBIT B

STOCK PURCHASE AGREEMENT

Filed separately as an Exhibit to this Registration Statement

EXHIBIT C

1998 STOCK OPTION/STOCK ISSUANCE PLAN

Filed separately as an Exhibit to this Registration Statement

EXHIBIT 10.24

DIGIRAD CORPORATION
STOCK OPTION AGREEMENT

RECITALS

A. The Board of Directors of the Corporation has adopted the Digirad Corporation 1998 Stock Option/Stock Issuance Plan (the "Plan") for the purpose of attracting and retaining the services of persons who contribute to the growth and financial success of the Corporation.

B. Optionee is a person who the Plan Administrator believes has and will contribute to the growth and financial success of the Corporation and this Agreement is executed pursuant to and is intended to carry out the purposes of the Plan.

AGREEMENT

NOW, THEREFORE, it is hereby agreed as follows:

1. GRANT OF OPTION. Subject to and upon the terms and conditions set forth in this Agreement, the Corporation hereby grants to Optionee, as of the grant date (the "Grant Date") specified in the accompanying Notice of Grant of Stock Option (the "Grant Notice"), a stock option to purchase up to that number of shares of the Corporation's Common Stock (the "Option Shares") as is specified in the Grant Notice. The Option Shares shall be purchasable from time to time during the option term at the option price per share (the "Option Price") specified in the Grant Notice. Capitalized terms used herein which are not otherwise defined shall have the meaning ascribed to such terms in the Plan.

2. OPTION TERM. This option shall have a maximum term of ten (10) years measured from the Grant Date and shall expire at the close of business on the expiration date (the "Expiration Date") specified in the Grant Notice, unless sooner terminated in accordance with Paragraph 5, 6 or 17.

3. LIMITED TRANSFERABILITY. This option shall be neither transferable nor assignable by Optionee other than by will or by the laws of descent and distribution following Optionee's death and may be exercised, during Optionee's lifetime, only by Optionee.

4. DATES OF EXERCISE. This option may not be exercised in whole or in part at any time prior to the time the Plan is approved by the Corporation's shareholders in accordance with Paragraph 17. Provided such shareholder approval is obtained, this option shall thereupon become exercisable for the Option Shares in one or more installments as is specified in the Grant Notice. As the option becomes exercisable in one or more installments, the installments shall accumulate and the option shall remain exercisable for such installments until the Expiration Date or the sooner termination of the option term under Paragraph 5 or Paragraph 6 of this Agreement.

5. SPECIAL TERMINATION OF OPTION TERM. The option term specified in Paragraph 2 shall terminate (and this option shall cease to be exercisable) prior to the Expiration Date should any of the following provisions become applicable:

(i) Except as otherwise provided in subparagraph (ii) or (iii) below, should Optionee cease to remain in Service while this option is outstanding, then the period for exercising this option shall be reduced to a three (3)-month period commencing with the date of such cessation of Service, but in no event shall this option be exercisable at any time after the Expiration Date. Upon the expiration of such three (3)-month period or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding.

(ii) Should Optionee die while this option is outstanding, then the personal representative of the Optionee's estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the law of descent and distribution shall have the right to exercise this option. Such right shall lapse and this option shall cease to be exercisable upon the EARLIER of (A) the expiration of the twelve (12) month period measured from the date of Optionee's death or (B) the Expiration Date. Upon the expiration of such twelve (12) month period or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding.

(iii) Should Optionee become permanently

disabled and cease by reason thereof to remain in Service while this option is outstanding, then the Optionee shall have a period of twelve (12) months (commencing with the date of such cessation of Service) during which to exercise this option, but in no event shall this option be exercisable at any time after the Expiration Date. Optionee shall be deemed to be permanently disabled if Optionee is unable to engage in any substantial gainful activity for the Corporation or the parent or subsidiary corporation retaining his/her services by reason of any medically determinable physical or mental impairment, which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. Upon the expiration of such limited period of exercisability or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding.

(iv) During the limited period of exercisability applicable under subparagraph (i), (ii) or (iii) above, this option may be exercised for any or all of the Option Shares for which this option is, at the time of the Optionee's cessation of Service, exercisable in accordance with the exercise schedule specified in the Grant Notice and the provisions of Paragraph 6 of this Agreement.

(v) For purposes of this Paragraph 5 and for all other purposes under this Agreement:

A. The Optionee shall be deemed to remain in Service for so long as the Optionee continues to render periodic services to the Corporation or any parent or subsidiary

corporation, whether as an Employee, a non-employee member of the board of directors, or an independent contractor or consultant.

B. The Optionee shall be deemed to be an EMPLOYEE of the Corporation and to continue in the Corporation's employ for so long as the Optionee remains in the employ of the Corporation or one or more of its parent or subsidiary corporations, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

C. A corporation shall be considered to be a SUBSIDIARY corporation of the Corporation if it is a member of an unbroken chain of corporations beginning with the Corporation, provided each such corporation in the chain (other than the last corporation) owns, at the time of determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

D. A corporation shall be considered to be a PARENT corporation of the Corporation if it is a member of an unbroken chain ending with the Corporation, provided each such corporation in the chain (other than the Corporation) owns, at the time of determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

6. EFFECT OF CORPORATE TRANSACTION.

A. Optionee shall automatically vest in full with respect to all of the Option Shares in the event of a Corporate Transaction so that each such option shall, immediately prior to the effective date of the Corporate Transaction, may be exercised for any or all of the Option Shares as fully-vested shares of Common Stock, provided that the Option Shares shall not automatically vest in full if and to the extent: (i) this option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation (or parent thereof) or to be replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof), or (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested option shares at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to those option shares. The determination of option comparability under clause (i) above shall be made by the Plan Administrator, and its determination shall be final, binding and conclusive.

B. To the extent not previously exercised, this Option shall terminate and cease to be exercisable upon the consummation of a Corporate Transaction unless it is expressly assumed by the successor corporation or parent thereof.

C. Option Shares available under any options which are assumed or replaced in the Corporate Transaction and do not otherwise accelerate at that time, shall automatically vest in full in the event the

Optionee's Service should subsequently terminated by reason of an Involuntary Termination within twenty-four (24) months following the effective date of such Corporate Transaction. Any options so accelerated shall remain exercisable for fully-vested

shares until the EARLIER of (i) the expiration of the option term or (ii) the expiration of the one (1)-year period measured from the effective date of the Involuntary Termination.

D. This Agreement shall not in any way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

7. EFFECT OF CHANGE IN CONTROL

In the event of any Change in Control, Optionee shall automatically vest in full with respect to all Option Shares so that each such option shall, immediately prior to the effective date of the Change in Control, be fully exercisable for any or all of Option Shares as fully-vested shares of Common Stock.

8. ADJUSTMENT IN OPTION SHARES.

A. In the event any change is made to the Corporation's outstanding Common Stock by reason of any stock split, stock dividend, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without receipt of consideration, then appropriate adjustments shall be made to (i) the total number of Option Shares subject to this option, (ii) the number of Option Shares for which this option is to be exercisable from and after each installment date specified in the Grant Notice and (iii) the Option Price payable per share in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

B. If this option is to be assumed in connection with a Corporate Transaction described in Paragraph 6 or is otherwise to remain outstanding, then this option shall be appropriately adjusted, immediately after such Corporate Transaction, to apply and pertain to the number and class of securities which would have been issuable to the Optionee in the consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Option Price payable per share, provided the aggregate Option Price payable hereunder shall remain the same.

9. PRIVILEGE OF STOCK OWNERSHIP. The holder of this option shall not have any of the rights of a shareholder with respect to the Option Shares until such individual shall have exercised the option and paid the Option Price.

10. MANNER OF EXERCISING OPTION.

A. In order to exercise this option with respect to all or any part of the Option Shares for which this option is at the time exercisable, Optionee (or in the case of exercise after Optionee's death, the Optionee's executor, administrator, heir or legatee, as the case may be) must take the following actions:

(i) Execute and deliver to the Secretary of the Corporation a stock purchase agreement (the "Purchase Agreement") in substantially the form of Exhibit B to the Grant Notice.

(ii) Pay the aggregate Option Price for the purchased shares in one or more forms approved under the Plan.

(iii) Furnish to the Corporation appropriate documentation that the person or persons exercising the option, if other than Optionee, have the right to exercise this option.

B. For purposes of this Agreement, the Exercise Date shall be the date on which the executed Purchase Agreement shall have been delivered to the Corporation, and the fair market value of a share of Common Stock on any relevant date shall be determined in accordance with subparagraphs (i) through (iii) below:

(i) If the Common Stock is not at the time listed or admitted to trading on any stock exchange but is traded on the NASDAQ National Market System, the fair market value shall be the closing selling price of one share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers through its NASDAQ system or any successor system. If there is no closing selling price for the Common Stock on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of fair market value.

(ii) If the Common Stock is at the time listed or admitted to trading on any stock exchange, then the fair market value shall be the closing selling price per share of Common Stock on the date in question on the stock exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of Common Stock on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

(iii) If the Common Stock at the time is neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market, or if the Plan Administrator determines that the value determined pursuant to subparagraphs (i) and (ii) above does not accurately reflect the fair market value of the Common Stock, then such fair market value shall be determined by the Plan Administrator after taking into account such factors as the Plan Administrator shall deem appropriate.

C. As soon after the Exercise Date as practical, the Corporation shall mail or deliver to Optionee or to the other person or persons exercising this option a certificate or certificates representing the shares so purchased and paid for, with the appropriate legends affixed thereto.

D. In no event may this option be exercised for any fractional shares.

11. COMPLIANCE WITH LAWS AND REGULATIONS.

A. The exercise of this option and the issuance of Option Shares upon such exercise shall be subject to compliance by the Corporation and the Optionee with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange on which shares of the Corporation's Common Stock may be listed at the time of such exercise and issuance.

B. In connection with the exercise of this option, Optionee shall execute and deliver to the Corporation such representations in writing as may be requested by the Corporation in order for it to comply with the applicable requirements of Federal and State securities laws.

12. SUCCESSORS AND ASSIGNS. Except to the extent otherwise provided in Paragraph 3 or 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Optionee and the successors and assigns of the Corporation.

13. LIABILITY OF CORPORATION.

A. If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of shares of Common Stock which may without shareholder approval be issued under the Plan, then this option shall be void with respect to such excess shares, unless shareholder approval of an amendment sufficiently increasing the number of shares of Common Stock issuable under the Plan is obtained in accordance with the provisions of Article IV, Section 3, of the Plan.

B. The inability of the Corporation to obtain approval from any regulatory body having authority deemed by the Corporation to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option shall relieve the Corporation of any liability with respect to the non-issuance or sale of the Common Stock as to which such approval shall not have been obtained. The Corporation, however, shall use its best efforts to obtain all such approvals.

14. NOTICES. Any notice required to be given or delivered to the Corporation under the terms of this Agreement shall be in writing and

addressed to the Corporation in care of the Corporate Secretary at its principal corporate offices. Any notice required to be given or delivered to Optionee shall be in writing and addressed to Optionee at the address indicated below Optionee's signature line on the Grant Notice. All notices shall be deemed to have been given or delivered upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

15. LOANS. The Plan Administrator may, in its absolute discretion and without any obligation to do so, assist the Optionee in the exercise of this option by (i) authorizing the

extension of a loan to the Optionee from the Corporation or (ii) permitting the Optionee to pay the option price for the purchased Common Stock in installments over a period of years. The terms of any such loan or installment method of payment (including the interest rate, the requirements for collateral and the terms of repayment) shall be established by the Plan Administrator in its sole discretion.

16. CONSTRUCTION. This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the express terms and provisions of the Plan. All decisions of the Plan Administrator with respect to any question or issue arising under the Plan or this Agreement shall be conclusive and binding on all persons having an interest in this option.

17. GOVERNING LAW. The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Delaware without resort to that State's conflict-of-laws rules.

18. SHAREHOLDER APPROVAL. The grant of this option is subject to approval of the Plan by the Corporation's shareholders within twelve (12) months after the adoption of the Plan by the Board of Directors. NOTWITHSTANDING ANY PROVISION OF THIS AGREEMENT TO THE CONTRARY, THIS OPTION MAY NOT BE EXERCISED IN WHOLE OR IN PART UNTIL SUCH SHAREHOLDER APPROVAL IS OBTAINED. In the event that such shareholder approval is not obtained, then this option shall thereupon terminate in its entirety and the Optionee shall have no further rights to acquire any Option Shares hereunder.

19. ADDITIONAL TERMS APPLICABLE TO AN INCENTIVE STOCK OPTION. In the event this option is designated an incentive stock option in the Grant Notice, the following terms and conditions shall also apply to the grant:

A. This option shall cease to qualify for favorable tax treatment as an incentive stock option under the Federal tax laws if (and to the extent) this option is exercised for one or more Option Shares: (i) more than three (3) months after the date the Optionee ceases to be an Employee for any reason other than death or permanent disability (as defined in Paragraph 5) or (ii) more than one (1) year after the date the Optionee ceases to be an Employee by reason of permanent disability.

B. Should this option be designated as immediately exercisable in the Grant Notice, then this option shall not become exercisable in the calendar year in which granted if (and to the extent) the aggregate fair market value (determined at the Grant Date) of the Corporation's Common Stock for which this option would otherwise first become exercisable in such calendar year would, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Corporation's Common Stock for which this option or one or more other incentive stock options granted to the Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Corporation or its parent or subsidiary corporations) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. To the extent the exercisability of this option is deferred by reason of the foregoing limitation, the deferred portion will first become exercisable

in the first calendar year or years thereafter in which the One Hundred Thousand Dollar ($100,000) limitation of this Paragraph 18.B would not be contravened.

C. Should this option be designated as exercisable in installments in the Grant Notice, then no installment under this option (whether annual or monthly) shall qualify for favorable tax treatment as an incentive stock option under the Federal tax laws if (and to the extent) the aggregate fair market value (determined at the Grant Date) of the Corporation's Common Stock for which such installment first becomes

exercisable hereunder will, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Corporation's Common Stock for which one or more other incentive stock options granted to the Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Corporation or any parent or subsidiary corporation) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate.

20. WITHHOLDING. Optionee hereby agrees to make appropriate arrangements with the Corporation or parent or subsidiary corporation employing Optionee for the satisfaction of all Federal, State or local income tax withholding requirements and Federal social security employee tax requirements applicable to the exercise of this option.

EXHIBIT 10.25

IMMEDIATELY EXERCISABLE

DIGIRAD CORPORATION
STOCK PURCHASE AGREEMENT

AGREEMENT made as of this ___ day of _____, 19__, by and among Digirad Corporation, (the "Corporation"), _____, the holder of a stock option (the "Optionee") under the Corporation's 1998 Stock Option/Stock Issuance Plan and _____, the Optionee's spouse.

I. EXERCISE OF OPTION

1.1 EXERCISE. Optionee hereby purchases shares ("Purchased Shares") of the Corporation's common stock ("Common Stock") pursuant to that certain option ("Option") granted Optionee on _____, 19___ ("Grant Date") to purchase up to _____ shares of the Common Stock ("Total Purchasable Shares") under the Corporation's 1998 Stock Option/Stock Issuance Plan (the "Plan") at an option price of $_____ per share ("Option Price").

1.2 PAYMENT. Concurrently with the delivery of this Agreement to the Corporate Secretary of the Corporation, Optionee shall pay the Option Price for the Purchased Shares in accordance with the provisions of the agreement between the Corporation and Optionee evidencing the Option (the "Option Agreement") and shall deliver whatever additional documents may be required by the Option Agreement as a condition for exercise, together with a duly-executed blank Assignment Separate from Certificate (in the form attached hereto as Exhibit I) with respect to the Purchased Shares.

1.3 DELIVERY OF CERTIFICATES. The certificates representing the Purchased Shares hereunder shall be held in escrow by the Corporate Secretary of the Corporation in accordance with the provisions of Article VII.

1.4 SHAREHOLDER RIGHTS. Until such time as the Corporation actually exercises its repurchase right, rights of first refusal or special purchase right under this Agreement, Optionee (or any successor in interest) shall have all the rights of a shareholder (including voting and dividend rights) with respect to the Purchased Shares, including the Purchased Shares held in escrow under Article VII, subject, however, to the transfer restrictions of Article IV.

II. SECURITIES LAW COMPLIANCE

2.1 EXEMPTION FROM REGISTRATION. The Purchased Shares have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), and are accordingly being issued to Optionee in reliance upon the exemption from such registration provided by Rule 701 of the Securities and Exchange Commission for stock issuances under compensatory benefit

plans such as the Plan. Optionee hereby acknowledges previous receipt of a copy of the documentation for such Plan in the form of Exhibit C to the Notice of Grant of Stock Option (the "Grant Notice") accompanying the Option Agreement.

2.2 RESTRICTED SECURITIES.

A. Optionee hereby confirms that Optionee has been informed that the Purchased Shares are restricted securities under the 1933 Act and may not be resold or transferred unless the Purchased Shares are first registered under the Federal securities laws or unless an exemption from such registration is available. Accordingly, Optionee hereby acknowledges that Optionee is prepared to hold the Purchased Shares for an indefinite period and that Optionee is aware that Rule 144 of the Securities and Exchange Commission issued under the 1933 Act is not presently available to exempt the sale of the Purchased Shares from the registration requirements of the 1933 Act.

B. Upon the expiration of the ninety (90)-day period immediately following the date on which the Corporation first becomes subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Purchased Shares, to the extent vested under Article V, may be sold (without registration) pursuant to the applicable requirements of Rule 144. If Optionee is at the time of such sale an affiliate of the Corporation for purposes of Rule 144 or was such an affiliate during the preceding three (3) months, then the sale must comply with all the requirements of Rule 144 (including the volume limitation on the number of shares sold, the broker/market-maker sale requirement and the requisite notice to the Securities and Exchange Commission); however, the two (2)-year holding period requirement of the Rule will not be applicable. If

Optionee is not at the time of the sale an affiliate of the Corporation nor was such an affiliate during the preceding three (3) months, then none of the requirements of Rule 144 (other than the broker/market-maker sale requirement for Purchased Shares held for less than three (3) years following payment in cash of the Option Price therefor) will be applicable to the sale.

C. Should the Corporation not become subject to the reporting requirements of the Exchange Act, then Optionee may, provided he/she is not at the time an affiliate of the Corporation (nor was such an affiliate during the preceding three (3) months), sell the Purchased Shares (without registration) pursuant to paragraph (k) of Rule 144 after the Purchased Shares have been held for a period of three (3) years following the payment in cash of the Option Price for such shares.

2.3 DISPOSITION OF SHARES. Optionee hereby agrees that Optionee shall make no disposition of the Purchased Shares (other than a permitted transfer under paragraph 4.1) unless and until there is compliance with all of the following requirements:

(a) Optionee shall have notified the Corporation of the proposed disposition and provided a written summary of the terms and conditions of the proposed disposition.

(b) Optionee shall have complied with all require-ments of this Agreement applicable to the disposition of the Purchased Shares.

(c) Optionee shall have provided the Corporation with written assurances, in form and substance satisfactory to the Corporation, that (i) the proposed disposition does not require registration of the Purchased Shares under the 1933 Act or (ii) all appropriate action necessary for compliance with the registration requirements of the 1933 Act or of any exemption from registration available under the 1933 Act (including Rule 144) has been taken.

(d) Optionee shall have provided the Corporation with written assurances, in form and substance satisfactory to the Corporation, that the proposed disposition will not result in the contravention of any transfer restrictions applicable to the Purchased Shares pursuant to the provisions of the Commissioner Rules identified in paragraph 2.5.

The Corporation shall not be required (i) to transfer on its books any Purchased Shares which have been sold or transferred in violation of the provisions of this Article II nor (ii) to treat as the owner of the Purchased Shares, or otherwise to accord voting or dividend rights to, any transferee to whom the Purchased Shares have been transferred in contravention of this Agreement.

2.4 RESTRICTIVE LEGENDS. In order to reflect the restrictions on disposition of the Purchased Shares, the stock certificates for the Purchased Shares will be endorsed with restrictive legends, including one or more of the following legends:

(i) "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or offered for sale in the absence of (a) an effective registration statement for the shares under such Act, (b) a 'no action' letter of the Securities and Exchange Commission with respect to such sale or offer, or (c) satisfactory assurances to the Corporation that registration under such Act is not required with respect to such sale or offer."

(ii) "The shares represented by this certificate are unvested and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated _____, 19__ between the Corporation and the registered holder of the shares (or the predecessor in interest to the shares). Such agreement grants certain repurchase rights and rights of first refusal to the Corporation (or its assignees) upon the sale, assignment, transfer, encumbrance or other disposition of the Corporation's shares or upon termination of service with the Corporation. The Corporation will upon written request furnish a copy of such agreement to the holder hereof without charge."

III. SPECIAL TAX ELECTION

3.1 SECTION 83(b) ELECTION APPLICABLE TO THE EXERCISE OF A NON-STATUTORY STOCK OPTION. If the Purchased Shares are acquired hereunder pursuant to the exercise of a NON-STATUTORY STOCK OPTION, as specified in the Grant Notice, then the Optionee understands that under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), the excess of the fair market value of the Purchased Shares on the date any forfeiture restrictions applicable to such shares lapse over the Option Price paid for such shares will be reportable as ordinary income on such lapse date. For this purpose, the term "forfeiture restrictions" includes the right of the Corporation to repurchase the Purchased Shares pursuant to the Repurchase Right provided under Article V of this Agreement. Optionee understands that he/she may elect under Section 83(b) of the Code to be taxed at the time the Purchased Shares are acquired hereunder, rather than when and as such Purchased Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within thirty (30) days after the date of this Agreement. Even if the fair market value of the Purchased Shares at the date of this Agreement equals the Option Price paid (and thus no tax is payable), the election must be made to avoid adverse tax consequences in the future. THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT II HERETO. OPTIONEE UNDERSTANDS THAT FAILURE TO MAKE THIS FILING WITHIN THE THIRTY (30)-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME BY THE OPTIONEE AS THE FORFEITURE RESTRICTIONS LAPSE.

3.2 CONDITIONAL SECTION 83(b) ELECTION APPLICABLE TO THE EXERCISE OF AN INCENTIVE STOCK OPTION. If the Purchased Shares are acquired hereunder pursuant to the exercise of an INCENTIVE STOCK OPTION under the Federal tax laws, as specified in the Grant Notice, then the following tax principles shall be applicable to the Purchased Shares:

A. For regular tax purposes, no taxable income will be recognized at the time the Option is exercised.

B. The excess of (i) the fair market value of the Purchased Shares on the date the Option is exercised or (if later) on the date any forfeiture restrictions applicable to the Purchased Shares lapse over (ii) the Option Price paid for the Purchased Shares will be includible in the Optionee's taxable income for alternative minimum tax purposes.

C. If the Optionee makes a disqualifying disposition of the Purchased Shares, then the Optionee will recognize ordinary income in the year of such disposition equal in amount to the excess of (i) the fair market value of the Purchased Shares on the date the Option is exercised or (if later) on the date any forfeiture restrictions applicable to the Purchased Shares lapse over (ii) the Option Price paid for the Purchased Shares. Any additional gain recognized upon the disqualifying disposition will be either short-term or long-term capital gain depending upon the period for which the Purchased Shares are held prior to the disposition.

D. For purposes of the foregoing, the term "forfeiture restrictions" will include the right of the Corporation to repurchase the Purchased Shares pursuant to

the Repurchase Right provided under Article V of this Agreement. The term "disqualifying disposition" means any sale or other disposition (1/) of the Purchased Shares within two (2) years after the Grant Date or within one (1) year after the execution date of this Agreement.

E. In the absence of final Treasury Regulations relating to incentive stock options, it is not certain whether the Optionee may, in connection with the exercise of the Option for any Purchased Shares at the time subject to forfeiture restrictions, file a protective election under Section 83(b) of the Code which would limit (I) the Optionee's alternative minimum taxable income upon exercise and (II) the Optionee's ordinary income upon a disqualifying disposition, to the excess of (i) the fair market value of the Purchased Shares on the date the Option is exercised over (ii) the Option Price paid for the Purchased Shares. THE APPROPRIATE FORM FOR MAKING SUCH A PROTECTIVE ELECTION IS ATTACHED AS EXHIBIT II TO THIS AGREEMENT AND MUST BE FILED WITH THE INTERNAL REVENUE SERVICE WITHIN THIRTY (30) DAYS AFTER THE DATE OF THIS AGREEMENT. HOWEVER, SUCH ELECTION IF PROPERLY FILED WILL ONLY BE ALLOWED TO THE EXTENT THE FINAL TREASURY REGULATIONS PERMIT SUCH A PROTECTIVE ELECTION.

3.3 OPTIONEE ACKNOWLEDGES THAT IT IS OPTIONEE'S SOLE RESPONSIBILITY, AND NOT THE CORPORATION'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF OPTIONEE REQUESTS THE CORPORATION OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS/HER BEHALF. This filing should be made by registered or certified mail, return receipt requested, and Optionee must retain two (2) copies of the completed form for filing with his or her State and Federal tax returns for the current tax year and an additional copy for his or her records.

IV. TRANSFER RESTRICTIONS

4.1 RESTRICTION ON TRANSFER. Optionee shall not transfer, assign, encumber or otherwise dispose of any of the Purchased Shares which are subject to the Corporation's Repurchase Right under Article V. In addition, Purchased Shares which are released from the Repurchase Right shall not be transferred, assigned, encumbered or otherwise made the subject of disposition in contravention of the Corporation's First Refusal Right under Article VI. Such restrictions on transfer, however, shall not be applicable to (i) a gratuitous transfer of the Purchased Shares made to the Optionee's spouse or issue, including adopted children, or to a trust for the exclusive benefit of the Optionee or the Optionee's spouse or issue, PROVIDED AND ONLY IF the Optionee obtains the Corporation's prior written consent to such transfer, (ii) a

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(1/) Generally, a disposition of shares purchased under an incentive stock option includes any transfer of legal title, including a transfer by sale, exchange or gift, but does not include a transfer to the Optionee's spouse, a transfer into joint ownership with right of survivorship if Optionee remains one of the joint owners, a pledge, a transfer by bequest or inheritance or certain tax free exchanges permitted under the Code.

transfer of title to the Purchased Shares effected pursuant to the Optionee's will or the laws of intestate succession or (iii) a transfer to the Corporation in pledge as security for any purchase-money indebtedness incurred by the Optionee in connection with the acquisition of the Purchased Shares.

4.2 TRANSFEREE OBLIGATIONS. Each person (other than the Corporation) to whom the Purchased Shares are transferred by means of one of the permitted transfers specified in paragraph 4.1 must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Corporation that such person is bound by the provisions of this Agreement and that the transferred shares are subject to (i) both the Corporation's Repurchase Right and the Corporation's First Refusal Right granted hereunder and (ii) the market stand-off provisions of paragraph 4.4, to the same extent such shares would be so subject if retained by the Optionee.

4.3 DEFINITION OF OWNER. For purposes of Articles IV, V, VI and VII of this Agreement, the term "Owner" shall include the Optionee and all subsequent holders of the Purchased Shares who derive their chain of ownership through a permitted transfer from the Optionee in accordance with paragraph 4.1.

4.4 MARKET STAND-OFF PROVISIONS.

A. In connection with any underwritten public offering by the Corporation of its equity securities pursuant to an effective registration statement filed under the 1933 Act, including the Corporation's initial public offering, Owner shall not sell, make any short sale of, loan, hypothecate, pledge, grant any option for the purchase of, or otherwise dispose or transfer for value or otherwise agree to engage in any of the foregoing transactions with respect to, any Purchased Shares without the prior written consent of the Corporation or its underwriters. Such limitations shall be in effect for such period of time from and after the effective date of such registration statement as may be requested by the Corporation or such underwriters; PROVIDED, however, that in no event shall such period exceed one hundred-eighty (180) days. The limitations of this paragraph 4.4 shall remain in effect for the two-year period immediately following the effective date of the Corporation's initial public offering and shall thereafter terminate and cease to have any force or effect.

B. Owner shall be subject to the market stand-off provisions of this paragraph 4.4 PROVIDED AND ONLY IF the officers and directors of the Corporation are also subject to similar arrangements.

C. In the event of any stock dividend, stock split, recapitalization or other change affecting the Corporation's outstanding Common Stock effected as a class without receipt of considera-tion, then any new, substituted or additional securities distributed with respect to the Purchased Shares shall be immediately subject to the provisions of this paragraph 4.4, to the same extent the Purchased Shares are at such time covered by such provisions.

D. In order to enforce the limitations of this paragraph 4.4, the Corporation may impose stop-transfer instruc-tions with respect to the Purchased Shares until the end of the applicable stand-off period.

V. REPURCHASE RIGHT

5.1 GRANT. The Corporation is hereby granted the right (the "Repurchase Right"), exercisable at any time during the sixty (60)-day period following the date the Optionee ceases for any reason to remain in Service or (if later) during the sixty (60)-day period following the execution date of this Agreement, to repurchase at the Option Price all or (at the discretion of the Corporation and with the consent of the Optionee) any portion of the Purchased Shares in which the Optionee has not acquired a vested interest in accordance with the vesting provisions of paragraph 5.3 (such shares to be hereinafter called the "Unvested Shares"). For purposes of this Agreement, the Optionee shall be deemed to remain in Service for so long as the Optionee continues to render periodic services to the Corporation or any parent or subsidiary corporation, whether as an employee, a non-employee member of the board of directors, or an independent contractor or consultant.

5.2 EXERCISE OF THE REPURCHASE RIGHT. The Repurchase Right shall be exercisable by written notice delivered to the Owner of the Unvested Shares prior to the expiration of the applicable sixty (60)-day period specified in paragraph 5.1. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than thirty (30) days after the date of notice. To the extent one or more certificates representing Unvested Shares may have been previously delivered out of escrow to the Owner, then Owner shall, prior to the close of business on the date specified for the repurchase, deliver to the Secretary of the Corporation the certificates representing the Unvested Shares to be repurchased, each certificate to be properly endorsed for transfer. The Corporation shall, concurrently with the receipt of such stock certificates (either from escrow in accordance with paragraph 7.3 or from Owner as herein provided), pay to Owner in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Option Price previously paid for the Unvested Shares which are to be repurchased.

5.3 TERMINATION OF THE REPURCHASE RIGHT. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under paragraph 5.2. In addition, the Repurchase Right shall terminate, and cease to be exercisable, with respect to any and all Purchased Shares in which the Optionee vests in accordance with the vesting schedule specified in the Grant Notice. All Purchased Shares as to which the Repurchase Right lapses shall, however, continue to be subject to (i) the First Refusal Right of the Corporation and its assignees under Article VI, (ii) the market stand-off provisions of paragraph 4.4 and (iii) the Special Purchase Right under Article VIII.

5.4 AGGREGATE VESTING LIMITATION. If the Option is exercised in more than one increment so that the Optionee is a party to one or more other Stock Purchase Agreements ("Prior Purchase Agreements") which are executed prior to the date of this Agreement, then the total number of Purchased Shares as to which the Optionee shall be deemed to have a fully-vested interest under this Agreement and all Prior Purchase Agreements shall not exceed in the aggregate the number of Purchased Shares in which the Optionee would otherwise at the time be vested, in accordance with the vesting provisions of paragraph 5.3, had all the Purchased Shares been acquired exclusively under this Agreement.

5.5 FRACTIONAL SHARES. No fractional shares shall be repurchased by the Corporation. Accordingly, should the Repurchase Right extend to a fractional share (in accordance with the vesting provisions of paragraph 5.3) at the time the Optionee ceases Service, then such fractional share shall be added to any fractional share in which the Optionee is at such time vested in order to make one whole vested share no longer subject to the Repurchase Right.

5.6 ADDITIONAL SHARES OR SUBSTITUTED SECURITIES. In the event of any stock dividend, stock split, recapitalization or other change affecting the Corporation's outstanding Common Stock as a class effected without receipt of consideration, then any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which is by reason of any such transaction distributed with respect to the Purchased Shares shall be immediately subject to the Repurchase Right, but only to the extent the Purchased Shares are at the time covered by such right. Appropriate adjustments to reflect the distribution of such securities or property shall be made to the number of Purchased Shares and Total Purchasable Shares hereunder and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such transaction upon the Corporation's capital structure; provided, however, that the aggregate purchase price shall remain the same.

5.7 CORPORATE TRANSACTION.

A. The Repurchase Rights shall automatically terminate and cease to be exercisable upon the consummation of any Corporate Transaction, provided that such repurchase right shall not terminate if and to the extent the Repurchase Rights are assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction.

B. Repurchase rights which are assigned in connection with a Corporate Transaction shall be exercisable with respect to the property issued to the Optionee upon consummation of such Corporate Transaction in exchange for the Common Stock held by the Optionee subject to the repurchase rights immediately prior to the Corporate Transaction.

C. Any Repurchase Rights which are assigned in a Corporate Transaction and do not otherwise become vested at that time, shall automatically terminate and cease to be exercisable in the event the Optionee's Service should subsequently terminate by reason of an Involuntary Termination within twenty-four (24) months following the effective date of such Corporate Transaction.

D. This Agreement shall not in any way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

VI. RIGHT OF FIRST REFUSAL

6.1 GRANT. The Corporation is hereby granted rights of first refusal (the "First Refusal Right"), exercisable in connection with any proposed transfer of the Purchased Shares in

which the Optionee has vested in accordance with the vesting provisions of Article V. For purposes of this Article VI, the term "transfer" shall include any sale, assignment, pledge, encumbrance or other disposition for value of the Purchased Shares intended to be made by the Owner, but shall not include any of the permitted transfers under paragraph 4.1.

6.2 NOTICE OF INTENDED DISPOSITION. In the event the Owner desires to accept a bona fide third-party offer for the transfer of any or all of the Purchased Shares (the shares subject to such offer to be hereinafter called the "Target Shares"), Owner shall promptly (i) deliver to the Corporate Secretary of the Corporation written notice (the "Disposition Notice") of the terms and conditions of the offer, including the purchase price and the identity of the third-party offeror, and (ii) provide satisfactory proof that the disposition of the Target Shares to such third-party offeror would not be in contravention of the provisions set forth in Articles II and IV of this Agreement.

6.3 EXERCISE OF RIGHT. The Corporation shall, for a period of forty-five (45) days following receipt of the Disposition Notice, have the right to repurchase any or all of the Target Shares specified in the Disposition Notice upon the same terms and conditions specified therein or upon terms and conditions which do not materially vary from those specified therein. Such right shall be exercisable by delivery of written notice (the "Exercise Notice") to Owner prior to the expiration of the forty-five (45)-day exercise period. If such right is exercised with respect to all the Target Shares specified in the Disposition Notice, then the Corporation (or its assignees) shall effect the repurchase of the Target Shares, including payment of the purchase price, not more than ten (10) business days after delivery of the Exercise Notice; and at such time Owner shall deliver to the Corporation the certificates repre-senting the Target Shares to be repurchased, each certificate to be properly endorsed for transfer. To the extent any of the Target Shares are at the time held in escrow under Article VII, the certificates for such shares shall automatically be released from escrow and delivered to the Corporation for purchase. Should the purchase price specified in the Disposition Notice be payable in property other than cash or evidences of indebtedness, the Corporation (or its assignees) shall have the right to pay the purchase price in the form of cash equal in amount to the value of such property. If the Owner and the Corporation (or its assignees) cannot agree on such cash value within ten (10) days after the Corporation's receipt of the Disposition Notice, the valuation shall be made by an appraiser of recognized standing selected by the Owner and the Corporation (or its assignees) or, if they cannot agree on an appraiser within twenty (20) days after the Corporation's receipt of the Disposition Notice, each shall select an appraiser of recognized standing and the two appraisers shall designate a third appraiser of recognized standing, whose appraisal shall be determinative of such value. The cost of such appraisal shall be shared equally by the Owner and the Corporation. The closing shall then be held on the later of (i) the tenth business day following delivery of the Exercise Notice or (ii) the tenth business day after such cash valuation

shall have been made.

6.4 NON-EXERCISE OF RIGHT. In the event the Exercise Notice is not given to Owner within forty-five (45) days following the date of the Corporation's receipt of the Disposition Notice, Owner shall have a period of thirty (30) days thereafter in which to sell or otherwise dispose of the Target Shares to the third-party offeror identified in the Disposition Notice upon terms and conditions (including the purchase price) no more favorable to such third-

party offeror than those specified in the Disposition Notice; provided, however, that any such sale or disposition must not be effected in contravention of the provisions of Article II of this Agreement. To the extent any of the Target Shares are at the time held in escrow under Article VII, the certificates for such shares shall automatically be released from escrow and surrendered to the Owner. The third-party offeror shall acquire the Target Shares free and clear of the Corporation's Repurchase Right under Article V and the Corporation's First Refusal Right hereunder, but the acquired shares shall remain subject to (i) the securities law restrictions of paragraph 2.2(a) and (ii) the market stand-off provisions of paragraph 4.4. In the event Owner does not effect such sale or disposition of the Target Shares within the specified thirty (30)-day period, the Corporation's First Refusal Right shall continue to be applicable to any subsequent disposition of the Target Shares by Owner until such right lapses in accordance with paragraph 6.7.

6.5 PARTIAL EXERCISE OF RIGHT. In the event the Corporation (or its assignees) makes a timely exercise of the First Refusal Right with respect to a portion, but not all, of the Target Shares specified in the Disposition Notice, Owner shall have the option, exercisable by written notice to the Corporation delivered within thirty (30) days after the date of the Disposition Notice, to effect the sale of the Target Shares pursuant to one of the following alternatives:

(i) sale or other disposition of all the Target Shares to the third-party offeror identified in the Disposition Notice, but in full compliance with the requirements of paragraph 6.4, as if the Corporation did not exercise the First Refusal Right hereunder; or

(ii) sale to the Corporation (or its assignees) of the portion of the Target Shares which the Corporation (or its assignees) has elected to purchase, such sale to be effected in substantial conformity with the provisions of paragraph 6.3.

Failure of Owner to deliver timely notification to the Corporation under this paragraph 6.5 shall be deemed to be an election by Owner to sell the Target Shares pursuant to alternative (i) above.

6.6 RECAPITALIZATION/MERGER.

(a) In the event of any stock dividend, stock split, recapitalization or other transaction affecting the Corporation's outstanding Common Stock as a class effected without receipt of consideration, then any new, substituted or additional securities or other property which is by reason of such transaction distributed with respect to the Purchased Shares shall be immediately subject to the Corporation's First Refusal Right hereunder, but only to the extent the Purchased Shares are at the time covered by such right.

(b) In the event of any of the following transactions:

(i) a merger or consolidation in which the Corporation is not the surviving entity,

(ii) a sale, transfer or other disposition of all or substantially all of the Corporation's assets,

(iii) a reverse merger in which the Corporation is the surviving entity but in which the Corporation's outstanding voting securities are transferred in whole or in part to person or persons other than those who held such securities immediately prior to the merger, or

(iv) any transaction effected primarily to change the State in which the Corporation is incorporated,

or to create a holding company structure,

the Corporation's First Refusal Right shall remain in full force and effect and shall apply to the new capital stock or other property received in exchange for the Purchased Shares in consummation of the transaction but only to the extent the Purchased Shares are at the time covered by such right.

6.7 LAPSE. The First Refusal Right under this Article VI shall lapse and cease to have effect upon the earliest to occur of (i) the first date on which shares of the Corporation's Common Stock are held of record by more than five hundred (500) persons, (ii) a determination is made by the Corporation's Board of Directors that a public market exists for the outstanding shares of the Corporation's Common Stock, or (iii) a firm commitment underwritten public offering pursuant to an effective registration statement under the 1933 Act, covering the offer and sale of the Corporation's Common Stock in the aggregate amount of at least $5,000,000. However, the market stand-off provisions of paragraph 4.4 shall continue to remain in full force and effect following the lapse of the First Refusal Right hereunder.

VII. ESCROW

7.1 DEPOSIT. Upon issuance, the certificates for any Unvested Shares purchased hereunder shall be deposited in escrow with the Corporate Secretary of the Corporation- to be held in accordance with the provisions of this Article VII. Each deposited certificate shall be accompanied by a duly-executed Assignment Separate from Certificate in the form of Exhibit I. The deposited certificates, together with any other assets or securities from time to time deposited with the Corporate Secretary pursuant to the requirements of this Agreement, shall remain in escrow until such time or times as the certificates (or other assets and securities) are to be released or otherwise surrendered for cancellation in accordance with paragraph 7.3. Upon delivery of the certificates (or other assets and securities) to the Corporate Secretary of the Corporation, the Owner shall be issued an instrument of deposit acknowledging the number of Unvested Shares (or other assets and securities) delivered in escrow.

7.2 RECAPITALIZATION. All regular cash dividends on the Unvested Shares (or other securities at the time held in escrow) shall be paid directly to the Owner and shall not be held in escrow. However, in the event of any stock dividend, stock split, recapitalization or other change affecting the Corporation's outstanding Common Stock as a class effected without receipt of consideration or in the event of a Corporate Transaction, any new, substituted or additional

securities or other property which is by reason of such transaction distributed with respect to the Unvested Shares shall be immediately delivered to the Corporate Secretary to be held in escrow under this Article VII, but only to the extent the Unvested Shares are at the time subject to the escrow requirements of paragraph 7.1.

7.3 RELEASE/SURRENDER. The Unvested Shares, together with any other assets or securities held in escrow hereunder, shall be subject to the following terms and conditions relating to their release from escrow or their surrender to the Corporation for repurchase and cancellation:

(i) Should the Corporation (or its assignees) elect to exercise the Repurchase Right under Article V with respect to any Unvested Shares, then the escrowed certificates for such Unvested Shares (together with any other assets or securities issued with respect thereto) shall be delivered to the Corporation concurrently with the payment to the Owner, in cash or cash equivalent (including the cancellation of any purchase-money indebtedness), of an amount equal to the aggregate Option Price for such Unvested Shares, and the Owner shall cease to have any further rights or claims with respect to such Unvested Shares (or other assets or securities attributable to such Unvested Shares).

(ii) Should the Corporation (or its assignees) elect to exercise its First Refusal Right under Article VI with respect to any vested Target Shares held at the time in escrow hereunder, then the escrowed certificates for such Target Shares (together with any other assets or securities attributable thereto) shall, concurrently with the payment of the paragraph 6.3 purchase price for such Target Shares to the Owner, be surrendered to the Corporation, and the Owner shall cease to have any further rights or claims with respect to such Target Shares (or other assets or securities).

(iii) Should the Corporation (or its assignees) elect not to exercise its First Refusal Right under Article

VI with respect to any Target Shares held at the time in escrow hereunder, then the escrowed certificates for such Target Shares (together with any other assets or securities attributable thereto) shall be surrendered to the Owner for disposition in accordance with provisions of paragraph 6.4.

(iv) As the interest of the Optionee in the Unvested Shares (or any other assets or securities attributable thereto) vests in accordance with the provisions of Article V, the certificates for such vested shares (as well as all other vested assets and securities) shall be released from escrow and delivered to the Owner in accordance with the following schedule:

a. The initial release of vested shares (or other vested assets and securities) from escrow shall be effected within thirty (30) days following the expiration of the initial twelve (12)-month period measured from the Grant Date.

b. Subsequent releases of vested shares (or other vested assets and securities) from escrow shall be effected at semi-annual intervals thereafter, with the first such semi-annual release to occur eighteen (18) months after the Grant Date.

c. Upon the Optionee's cessation of Service, any escrowed Purchased Shares (or other assets or securities) in which the Optionee is at the time vested shall be promptly released from escrow.

d. Upon any earlier termination of the Corporation-'s Repurchase Right in accordance with the applicable provisions of Article V, any Purchased Shares (or other assets or securities) at the time held in escrow hereunder shall promptly be released to the Owner as fully-vested shares or other property.

(v) All Purchased Shares (or other assets or securities) released from escrow in accordance with the provisions of subparagraph (iv) above shall nevertheless remain subject to (I) the Corporation's First Refusal Right under Article VI until such right lapses pursuant to paragraph 6.7, (II) the market stand-off provisions of paragraph 4.4 until such provisions terminate in accordance therewith and (III) the Special Purchase Right under Article VIII.

VIII. MARITAL DISSOLUTION OR LEGAL SEPARATION

8.1 GRANT. In connection with the dissolution of the Optionee's marriage or the legal separation of the Optionee and the Optionee's spouse, the Corporation shall have the right (the "Special Purchase Right"), exercisable at any time during the thirty (30)-day period following the Corporation's receipt of the required Dissolution Notice under paragraph 8.2, to purchase from the Optionee's spouse, in accordance with the provisions of paragraph 8.3, all or any portion of the Purchased Shares which would otherwise be awarded to such spouse in settlement of any community property or other marital property rights such spouse may have in such shares.

8.2 NOTICE OF DECREE OR AGREEMENT. The Optionee shall promptly provide the Secretary of the Corporation with written notice (the "Dissolution Notice") of (i) the entry of any judicial decree or order resolving the property rights of the Optionee and the Optionee's spouse in connection with their marital dissolu-tion or legal separation or (ii) the execution of any contract or agreement relating to the distribution or division of such property rights. The Dissolution Notice shall be accompanied by a copy of the actual decree of dissolution or settlement agreement between the Optionee and the Optionee's spouse which provides for the award to the spouse of one or more Purchased Shares in settlement of any community property or other marital property rights such spouse may have in such shares.

8.3 EXERCISE OF SPECIAL PURCHASE RIGHT. The Special Purchase Right shall be exercisable by delivery of written notice (the "Purchase Notice") to the Optionee and the Optionee's spouse within thirty (30) days after the Corporation's receipt of the Dissolution Notice. The Purchase Notice shall indicate the number of shares to be purchased by the

Corporation, the date such purchase is to be effected (such date to be not less than five (5) business days, nor more than ten (10) business days, after

the date of the Purchase Notice), and the fair market value to be paid for such Purchased Shares. The Optionee (or the Optionee's spouse, to the extent such spouse has physical possession of the Purchased Shares) shall, prior to the close of business on the date specified for the purchase, deliver to the Corporate Secretary of the Corporation the certificates representing the shares to be purchased, each certificate to be properly endorsed for transfer. To the extent any of the shares to be purchased by the Corporation are at the time held in escrow under Article VII, the certificates for such shares shall be promptly delivered out of escrow to the Corporation. The Corporation shall, concurrently with the receipt of the stock certificates, pay to the Optionee's spouse (in cash or cash equivalents) an amount equal to the fair market value specified for such shares in the Purchase Notice.

If the Optionee's spouse does not agree with the fair market value specified for the shares in the Purchase Notice, then the spouse shall promptly notify the Corporation in writing of such disagreement and the fair market value of such shares shall thereupon be determined by an appraiser of recognized standing selected by the Corporation and the spouse. If they cannot agree on an appraiser within twenty (20) days after the date of the Purchase Notice, each shall select an appraiser of recognized standing, and the two appraisers shall designate a third appraiser of recognized standing whose appraisal shall be determinative of such value. The cost of the appraisal shall be shared equally by the Corporation and the Optionee's spouse. The closing shall then be held on the fifth business day following the completion of such appraisal; PROVIDED, however, that if the appraised value is more than fifteen percent (15%) greater than the fair market value specified for the shares in the Purchase Notice, the Corporation shall have the right, exercisable prior to the expiration of such five (5)-business-day period, to rescind the exercise of the Special Purchase Right and thereby revoke its election to purchase the shares awarded to the spouse.

8.4 LAPSE. The Special Purchase Right under this Article VIII shall lapse and cease to have effect upon the earlier to occur of (i) the first date on which the First Refusal Right under Article VI lapses or (ii) the expiration of the thirty (30)-day exercise period specified in paragraph 8.3, to the extent the Special Purchase Right is not timely exercised in accordance with such paragraph.

IX. GENERAL PROVISIONS

9.1 ASSIGNMENT. The Corporation may assign its Repurchase Right under Article V, its First Refusal Right under Article VI and/or its Special Purchase Right under Article VIII to any person or entity selected by the Corporation's Board of Directors, including (without limitation) one or more shareholders of the Corporation.

If the assignee of the Repurchase Right is other than a one hundred percent (100%) owned subsidiary corporation of the Corporation or the parent corporation owning one hundred percent (100%) of the Corporation, then such assignee must make a cash payment to the Corporation, upon the assignment of the Repurchase Right, in an amount equal to the excess (if any) of (i) the fair market value of the Unvested Shares at the time subject to the

assigned Repurchase Right over (ii) the aggregate repurchase price payable for the Unvested Shares thereunder.

9.2 DEFINITIONS. For purposes of this Agreement, the following provisions shall be applicable in determining the parent and subsidiary corporations of the Corporation:

(i) Any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation shall be considered to be a parent corporation of the Corporation, provided each such corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(ii) Each corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation shall be considered to be a subsidiary of the Corporation, provided each such corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

9.3 NO EMPLOYMENT OR SERVICE CONTRACT. Nothing in this Agreement or in the Plan shall confer upon the Optionee any right to continue in the Service of the Corporation (or any parent or subsidiary corporation of

the Corporation employing or retaining Optionee) for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any parent or subsidiary corporation of the Corporation employing or retaining Optionee) or the Optionee, which rights are hereby expressly reserved by each, to terminate the Optionee's Service at any time for any reason whatsoever, with or without cause.

9.4 NOTICES. Any notice required in connection with (i) the Repurchase Right, the Special Purchase Right or the First Refusal Right or (ii) the disposition of any Purchased Shares covered thereby shall be given in writing and shall be deemed effective upon personal delivery or upon deposit in the United States mail, registered or certified, postage prepaid and addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten (10) days advance written notice under this paragraph 9.4 to all other parties to this Agreement.

9.5 NO WAIVER. The failure of the Corporation (or its assignees) in any instance to exercise the Repurchase Right granted under Article V, or the failure of the Corporation (or its assignees) in any instance to exercise the First Refusal Right granted under Article VI, or the failure of the Corporation (or its assignees) in any instance to exercise the Special Purchase Right granted under Article VIII shall not constitute a waiver of any other repurchase rights and/or rights of first refusal that may subsequently arise under the provisions of this Agreement or any other agreement between the Corporation and the Optionee or the Optionee's spouse. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

9.6 CANCELLATION OF SHARES. If the Corporation (or its assignees) shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Purchased Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement), and such shares shall be deemed purchased in accordance with the applicable provisions hereof and the Corporation (or its assignees) shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

X. MISCELLANEOUS PROVISIONS

10.1 OPTIONEE UNDERTAKING. Optionee hereby agrees to take whatever additional action and execute whatever additional documents the Corporation may in its judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either the Optionee or the Purchased Shares pursuant to the express provisions of this Agreement.

10.2 AGREEMENT IS ENTIRE CONTRACT. This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and shall in all respects be construed in conformity with the express terms and provisions of the Plan.

10.3 GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, as such laws are applied to contracts entered into and performed in such State without resort to that State's conflict-of-laws rules.

10.4 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

10.5 SUCCESSORS AND ASSIGNS. The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and the Optionee and the Optionee's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms and conditions hereof.

10.6 POWER OF ATTORNEY. Optionee's spouse hereby appoints Optionee his or her true and lawful attorney in fact, for him or her and in his or her name, place and stead, and for his or her use and benefit, to agree to any amendment or modification of this Agreement and to execute such further instruments and take such further actions as may reasonably be necessary to carry out the intent of this Agreement. Optionee's spouse further gives and grants unto Optionee as his or her attorney in fact full power and authority to do and perform every act necessary and proper to be

done in the exercise of any of the foregoing powers as fully as he or she might or could do if personally present, with full power of substitution and revocation,

hereby ratifying and confirming all that Optionee shall lawfully do and cause to be done by virtue of this power of attorney.

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IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first indicated above.

DIGIRAD CORPORATION

By: ----------

Title: ----------

Address: ----------

Optionee (*/)

Address:

The undersigned spouse of Optionee has read and hereby approves the foregoing Stock Purchase Agreement. In consider-ation of the Corporation's granting the Optionee the right to acquire the Purchased Shares in accordance with the terms of such Agreement, the undersigned hereby agrees to be irrevocably bound by all the terms and provisions of such Agreement, including (specifically) the right of the Corporation (or its assignees) to purchase any and all interest or right the undersigned may otherwise have in such shares pursuant to community property laws or other marital property rights.

Optionee's Spouse

Address: ----------

(*/) I have executed the Section 83(b) election that was attached hereto as an Exhibit. As set forth in Article III, I understand and I, and NOT the Corporation, will be responsible for completing the form and filing the election with the appropriate office of the Federal and State tax authorities and that if such filing is not completed within thirty (30) days after the date of this Agreement, I will not be entitled to the tax benefits provided by Section 83(b)

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED _____ hereby sell(s), assign(s) and transfer(s) unto Digirad Corporation (the "Corporation"), _____ (_____) shares of the Common Stock of the Corporation standing in his\her name on the books of the Corporation represented by Certificate No. _____ and do hereby irrevocably constitute and appoint_____as Attorney to transfer the said stock on the books of the Corporation with full power of substitution in the premises.

Dated:

Signature

INSTRUCTION: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to enable the Corporation to exercise its Repurchase Right set forth in the Agreement without requiring additional signatures on the part of the Optionee.

REPURCHASE RIGHTS

EXHIBIT II

SECTION 83(b) TAX ELECTION

This statement is being made under Section 83(b) of the Internal Revenue Code, pursuant to Treas. Reg. Section 1.83-2.

(1) The taxpayer who performed the services is:

Name:
Address:
Taxpayer Ident. No.:

(2) The property with respect to which the election is being made is _____ shares of the common stock of Digirad Corporation.

(3) The property was issued on _____, 19__.

(4) The taxable year in which the election is being made is the calendar year 19__.

(5) The property is subject to a repurchase right pursuant to which the issuer has the right to acquire the property at the original purchase price if for any reason taxpayer's employment with the issuer is terminated. The issuer's repurchase right lapses in a series of annual and monthly installments over a four year period ending on _____, 19__ .

(6) The fair market value at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) is $ _____ per share.

(7) The amount paid for such property is $ _____ per share.

(8) A copy of this statement was furnished to Digirad Corporation for whom taxpayer rendered the services underlying the transfer of property.

(9) This statement is executed as of: _____.

Spouse (if any)

Taxpayer

This form must be filed with the Internal Revenue Service Center with which taxpayer files his/her Federal income tax returns. The filing must be made within 30 days after the execution date of the Stock Purchase Agreement.

SPECIAL PROTECTIVE ELECTION PURSUANT TO SECTION 83(b) OF THE INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY ACQUIRED UPON EXERCISE OF AN

INCENTIVE STOCK OPTION

The property described in the above Section 83(b) election is comprised of shares of common stock acquired pursuant to the exercise of an incentive stock option under Section 422 of the Code. Accordingly, it is the intent of the Taxpayer to utilize this election to achieve the following tax results:

1. The purpose of this election is to have the alternative minimum taxable income attributable to the purchased shares measured by the amount by which the fair market value of such shares at the time of their transfer to the Taxpayer exceeds the purchase price paid for the shares. In the absence of this election, such alternative minimum taxable income would be measured by the spread between the fair market value of the purchased shares and the purchase price which exists on the various lapse dates in effect for the forfeiture restric-tions applicable to such shares. The election is to be effective to the full extent permitted under the Internal Revenue Code.

2. Section 421(a)(1) of the Code expressly excludes from income any excess of the fair market value of the purchased shares over the amount paid for such shares. Accordingly, this election is also intended to be effective in the event there is a "disqualifying disposition" of the shares, within the meaning of Section 421(b) of the Code, which would otherwise render the provisions of Section 83(a) of the Code applicable at that time. Consequently, the Taxpayer hereby elects to have the amount of disqualifying disposition income measured by the excess of the fair market value of the purchased shares on the date of transfer to the Taxpayer over the amount paid for such shares. Since Section 421(a) presently applies to the shares which are the subject of this Section 83(b) election, no taxable income is actually recognized for regular tax purposes at this time, and no income taxes are payable, by the Taxpayer as a result of this election.

This form should be filed with the Internal Revenue Service Center with which taxpayer files his/her Federal income tax returns. The filing must be made within 30 days after the execution date of the Stock Purchase Agreement.

NOTE: PAGE 2 SHOULD BE ATTACHED ONLY IF YOU ARE EXERCISING AN INCENTIVE STOCK OPTION.

EXHIBIT 10.28

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT (hereinafter "AGREEMENT") is made and entered into by and between McAdams and Witham Consulting (hereinafter "MWC") and Digirad Corporation (hereinafter "DIGIRAD") on July 31, 2001 (the "Execution Date").

RECITALS

A. The only principals of MWC are Dr. Stephan McAdams and Mr. John Witham

B. DIGIRAD has a need for the consulting services of MWC and MWC is willing to provide such consulting services to DIGIRAD upon the terms and conditions stated in this AGREEMENT.

NOW, THEREFORE, for and in consideration of the execution of this AGREEMENT and the mutual covenants contained in the following paragraphs, DIGIRAD and MWC agree as follows:

1. CONSULTING PERIOD. The parties agree that during the period from the Execution Date through *** (the "Consulting Period"), DIGIRAD will retain MWC as a consultant, pursuant to the terms and conditions stated herein. The Consulting Period will thereafter be automatically renewed for additional, successive *** periods unless either party notifies the other party in writing at least *** prior to the end of the applicable Consulting Period of its intention to discontinue this AGREEMENT. Notwithstanding the foregoing, however, *** may terminate this AGREEMENT at any time for any reason, with or without cause, by delivering written notice of such termination to the *** with such termination to be effective upon the *** receipt of such notice.

2. SERVICES. The parties agree that the nature of the consulting services which MWC will provide to DIGIRAD hereunder shall consist of the following:

a) Provide and generate sales leads for DIGIRAD's products and Digirad Imaging Solutions ("DIS") services.

b) Reasonably accept and promptly respond to DIGIRAD product sales and DIS service inquiries from existing customers, potential customers, DIGIRAD personnel, and others at DIGIRAD's discretion (e.g. investors, potential employees, analysts, etc.)

c) ***
***

d) ***
***

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

e) ***
***

f) ***
*** MWC ***

g) Act as advisors on future product developments.

h) ***
***

3. INDEPENDENT CONTRACTOR STATUS. The parties agree that nothing herein contained shall be deemed to create an agency, joint venture, partnership or franchise relationship between parties hereto. MWC acknowledges that it is an independent contractor, is not an agent or employee of DIGIRAD and is not entitled to any DIGIRAD employment rights or benefits and is not authorized to act on behalf of DIGIRAD. MWC shall be solely responsible for any and all tax obligations of MWC and those of its employees and representatives, including but not limited to, all city, state and federal income taxes, social security withholding tax and other self employment tax incurred by MWC DIGIRAD shall not dictate the work hours of MWC during the term of this AGREEMENT. Anything herein to the contrary notwithstanding, the parties hereby acknowledge and agree that DIGIRAD shall have no right to control the manner, means, or method by which MWC

performs the services called for by this AGREEMENT. Rather, DIGIRAD shall be entitled only to direct MWC with respect to the elements of services to be performed by MWC and the results to be derived by Company, to inform MWC as to where and when such services shall be performed, and to review and assess the performance of such services by MWC for the limited purposes of assuring that such services have been performed and confirming that such results were satisfactory. DIGIRAD shall be entitled to exercise broad general power of supervision and control over the results of work performed by MWC personnel to ensure satisfactory performance, including the right to inspect, the right to stop work, the right to make suggestions or recommendations as to the details of the work, and the right to propose modifications to the work.

4. COMPENSATION. During the Consulting Period, customer identification will take place as follows:

a) *** MWC ***
*** MWC ***
*** MWC ***

b) ***
*** MWC ***
*** MWC ***
*** MWC ***

During the Consulting Period, DIGIRAD shall compensate MWC as follows:

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

a) DIGIRAD will pay MWC *** per customer site visit to *** DIGIRAD will also pay MWC an additional $*** if the customer on the site visit is not an Identified Customer and they purchase a DIGIRAD gamma camera within *** after the site visit.

b) For Identified Customers that are a part of a national contract (i.e., ***), DIGIRAD will pay MWC *** of the sales price of the complete DIGIRAD camera system without accessories purchased by an Identified Customer after such customer has purchased a DIGIRAD system, had it installed and completed all necessary payments for the system in full. For Identified Customer that are a not a part of a national contract, DIGIRAD will pay MWC *** of the sales price of the complete DIGIRAD camera system without accessories purchased by an Identified Customer after such customer has purchased a DIGIRAD system, had it installed and completed all necessary payments for the system in full. Additionally, DIGIRAD will issue to MWC warrants to purchase *** *** *** The warrant value of the DIGIRAD Common Stock will be as determine by the Board of Directors of DIGIRAD at its meeting immediately following the date the aforementioned criteria have been satisfied. *** *** *** The warrant value of the DIGIRAD Common Stock will be as determined by the Board of Directors of DIGIRAD at its meeting immediately following the date the aforementioned criteria have been satisfied.

c) DIGIRAD will issue MWC a warrant to purchase shares of DIGIRAD common stock at a per share exercise price of $*** Such warrant will be exercisable for an increasing number of shares of DIGIRAD common stock in the following amounts and under the following schedules: ***
***
***
*** In the event that DIGIRAD is acquired by a third party whether by means of a merger, a sale of substantially all of its assets or the sale of more than 50% of its outstanding securities (each, an "Acquisition Event"), the warrant will be immediately exercisable in full for *** shares of DIGIRAD common stock upon the closing of the Acquisition Event.

d) All references to a number of shares of common stock to be issued pursuant to any warrant and the exercise price thereof shall be appropriately adjusted to reflect any stock splits, stock dividends or combinations relating to DIGIRAD's Common Stock after the Execution Date.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

5. OUTSIDE ACTIVITIES. The parties agree that during the Consulting Period, MWC and its employees and personnel shall not become employed by, or act as a consultant to, any person or entity that is directly competitive with the business activities of DIGIRAD. Persons and entities which shall be considered "directly competitive with the business activities of DIGIRAD" are *** *** The parties agree that nothing in this AGREEMENT shall prohibit or otherwise limit MWC from becoming employed by, or acting a consultant to, any person or entity that is not directly competitive with the business activities of DIGIRAD. MWC specifically represents that it agrees that the foregoing limitation on its outside activities and those of its employees and personnel, is reasonable in scope and duration, and does not impose an unreasonable burden on the ability of its employees and personnel to earn a living.

6. PROMISE TO MAINTAIN CONFIDENTIALITY OF DIGIRAD'S CONFIDENTIAL INFORMATION. MWC acknowledges that in its capacity as a consultant to DIGIRAD it shall continue to be privy to confidential information belonging to DIGIRAD. MWC hereby promises and agrees that, unless compelled by legal process, MWC, as well as its employees and personnel, will not disclose to others and will keep confidential all information it has received while working as a consultant to, DIGIRAD concerning DIGIRAD's research and development activities, products and procedures, the identifies of DIGIRAD's customers, DIGIRAD's sales, DIGIRAD's prices, the terms of any of DIGIRAD's contracts with third parties, and the like. MWC agrees that a violation by it or any of its employees or personnel of the foregoing obligation to maintain the confidentiality of DIGIRAD's confidential information will constitute a material breach of this AGREEMENT and will entitled DIGIRAD to immediately terminate this AGREEMENT, with no further obligations then being owed to MWC. MWC specifically confirms that MWC, as well as its employees and personnel, will continue to comply with the terms of the Non-Disclosure Agreement executed between MWC and DIGIRAD.

7. EFFECT OF TERMINATION. Within *** after the termination of this Agreement in its entirety for any reason, the parties shall promptly return to one another all property and other materials of the other party in their respective possessions, including all media (and copies thereof) containing confidential information of DIGIRAD and including without limitation all marketing materials, customer lists, placement records, service records and sales forecasts. If this Agreement is terminated by DIGIRAD, then within *** after DIGIRAD gives MWC notice of its intention to terminate this Agreement, *** MWC *** *** For *** after the termination date of this Agreement, DIGIRAD shall compensate MWC pursuant to the terms of this Agreement, *** ***

8. INTEGRATED AGREEMENT. The parties acknowledge and agree that no promises or representations were made to them which do not appear written herein and that this AGREEMENT contains the entire agreement of the parties on the subject matter thereof. The parties further acknowledge and agree that parol evidence shall not be required to interpret the intent of the parties.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

9. VOLUNTARY EXECUTIONS. The parties hereby acknowledge that they have read and understand this AGREEMENT and that they sign this AGREEMENT voluntarily and without coercion.

10. WAIVER, AMENDMENT AND MODIFICATION OF AGREEMENT. The parties agree that no waiver, amendment or modification of any of the terms of this AGREEMENT shall be effective unless in writing and signed by all parties affected by the waiver, amendment or modification. No waiver of any term, condition or default of any term of this AGREEMENT shall be construed as a waiver of any other term, condition or default.

11. REPRESENTATION BY COUNSEL. The parties represent that they understand that they have the right to be represented in negotiations for the preparation of this AGREEMENT by counsel of their own choosing, and that they have entered into this AGREEMENT voluntarily, without coercion, and based upon their own judgment, and not in reliance upon any representations or promises made by the other party, other than those contained within this AGREEMENT. The parties further agree that if any of the facts or matters upon which they now rely in making this AGREEMENT hereafter provide to be otherwise, this AGREEMENT will nonetheless remain in full force and effect.

12. CALIFORNIA LAW. The parties agree that this AGREEMENT and its terms shall be construed under California law.

13. ATTORNEY'S FEES. If any action at law or in equity is

necessary to enforce or determine the terms of this AGREEMENT, the prevailing party shall be entitled to reasonable attorneys' fees, costs, and necessary disbursements, in addition to any other relief to which the party may be entitled.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have executed this AGREEMENT as of the date first above written.

MCADAMS AND WITHAM CONSULTING

Dated: 8/9/2001 — /s/ ***
Dr. Stephan McAdams

Dated: 8/9/2001 — /S/ ***
Mr. John Witham

DIGIRAD CORPORATION

Dated: 7-13-01 — By: /s/ Scott ILLEGIBLE
Its: President & CEO

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

[SCHEDULE 1]

EXHIBIT 10.29

DIGIRAD CORPORATION

SERVICE AGREEMENT

THIS SERVICE AGREEMENT ("Agreement") is entered into as of August 25, 2000, ("Effective Date"), by and between Digirad Corporation, a Delaware corporation, located at 9350 Trade Place, San Diego, California 92126-6334 ("DIGIRAD") and Universal Servicetrends, Inc., a Delaware Corporation, located at c/o Servicetrends 3655 Kennesaw 75 Parkway, ste. 135, Kennesaw, GA 30144 ("USI").

RECITALS

A. DIGIRAD manufactures certain gamma camera products, and associated support components for use in the medical industry as well as provides nuclear medicine imaging services.

B. USI is an individual service provider that specializes in servicing products to the medical industry.

C. DIGIRAD wishes to appoint USI, and USI wishes to accept such appointment as USI for all Products distributed.

In consideration of the foregoing and the promises and covenants contained herein and other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. APPOINTMENT OF USI.

1.1 APPOINTMENT. DIGIRAD hereby appoints USI as DIGIRAD's exclusive service provider of Products (defined below) for purchasers in the medical industry in the territory described in attached Exhibit A ("Territory"), and USI hereby accepts such appointment. USI agrees to service the Products only within the Territory. Notwithstanding the foregoing, for any reasonable reason, including, but not limited to, poor performance in a region or non-cooperation of the USI in the Territory or for effecting any part of Section 6.3 of this Agreement, Digirad may amend Exhibit A at any time by deleting a region by giving written notice of such amendment to USI. Such notice shall be effective immediately.

1.2 PRODUCTS. The product and its options subject to this Agreement ("Products", are set forth on the list attached as Exhibit B ("List").

2. EXCLUSIVITY TERM:

2.1 EXCLUSIVITY TERM. The "Exclusivity Term" shall be *** years *** may terminate the agreement after *** year with *** days written notice to the ***

3. OBLIGATIONS OF USI.

3.1 BEST EFFORTS. USI agrees to use its best efforts to service Products in the Territory.

3.2 USI TRAINING AND COOPERATION. USI shall participate at USI's travel, lodging expense in training courses and seminars conducted by DIGIRAD at locations and times agreeable to both DIGIRAD and USI to inform service providers on the servicing of the Products.

3.3 COMPLIANCE. USI shall comply with all applicable laws, regulations or restrictions (collectively, "Applicable Laws") relevant to this Agreement and the subject matter hereof and shall actively assist DIGIRAD in its compliance with same. USI shall immediately cease distribution of any Product, Spare Part (as defined below) or any other activity under this Agreement with respect thereto upon written notice by DIGIRAD in connection with any adverse or unexpected results or any actual or potential government action relevant to any Product or Spare Part.

3.4 MODIFICATIONS. USI shall promptly notify DIGIRAD in writing as to any issues or problems with the Product or Spare Parts encountered by any of USI's customers, employees, agents or affiliates and any resolutions arrived at for those problems. USI shall communicate in writing with DIGIRAD any and all modifications, design changes or improvements of the Products or Spare Parts suggested by any customers, employees, agents, or affiliates of USI. USI

further agrees that DIGIRAD shall have any and all right, title and interest in and to any such suggested modification, design change or improvement without payment of additional consideration for such either to USI or its employees, agents or affiliates. USI further agrees that DIGIRAD, in its sole discretion, shall determine the implementation or not of any such suggested modification, design change or improvement.

3.5 RECALLS. For the term of this Agreement and for such additional time periods as specified by DIGIRAD in accordance with applicable regulations promulgated by the U.S. Food & Drug Administration, USI shall maintain records of all Product and Spare Parts sales and customers sufficient to adequately administer a recall or replacement of any Product or Spare Part and shall fully cooperate with DIGIRAD in any effort of DIGIRAD to recall or replace any Product or Spare Part thereof.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

4. PRODUCT SERVICE.

4.1 SERVICE. Service ("Service") shall be defined as the duty and function of installing, maintaining and repairing Products such that an end-user has use and function of such Products to the fullest extent.

4.2 SERVICE ASSIGNED TO USI. USI shall Service all Products located in the Territory ("Service Assignment"). Any parts or Products replaced by USI shall be returned to DIGIRAD. DIGIRAD hereby delegates to USI DIGIRAD's obligations under any DIGIRAD Service Agreement with any end-user provided, however, that DIGIRAD may rescind such delegation at any time.

4.3 SERVICE LEVEL COMMITMENT. USI agrees to at all times maintain a Field Service Representative staff proficient and professional in the Service of Products. Furthermore, USI agrees to provide for adequate Territory coverage and a Field Service Representative staffing level appropriate to assure that costs to DIGIRAD for such Service are held to a reasonable and logical amount.

4.4 SPARE PARTS PURCHASE. Subject to the terms of this Agreement for which DIGIRAD shall supply USI with spare parts ("Spare Parts"), USI agrees to satisfy solely, through USI's purchase of spare parts from DIGIRAD, one hundred percent (100%) of USI's requirements for Spare Parts for Servicing all Digirad Products.

4.5 DELIVERY DATE. Delivery date shall mean a date for which delivery of Spare Parts Kit and Other Spare Parts is quoted by DIGIRAD pursuant to a Supply Agreement Purchase Order and an Other Spare Parts Purchase Order.

4.6 APPLICABLE LAWS AND REGULATIONS. USI will ascertain and comply with all applicable laws and regulations and standards of industry or professional conduct in connection with the use, distribution, installation or promotion of Other Spare Parts, including without limitation, those applicable to product claims, labeling, approvals, registrations and notification.

4.7 FEE FOR SERVICE PROVIDED BY USI. If DIGIRAD delegates its obligations to USI for Service to be performed by DIGIRAD pursuant to: (1) a DIGIRAD Service Agreement; or (2) the warranty of the Products; or (3) an agreement between DIGIRAD and an end-user for Service on an as-needed basis, DIGIRAD shall pay USI a fee of *** *** for that period of time Service is actually performed on Products *** *** *** *** All such costs will be documented, receipted and invoiced per the field service purchase order, ("Field Service Purchase Order" as shown in exhibit "D"). *** ***

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

5. REPORTS AND RECORDS.

5.1 PARTS AND SERVICE REPORTS.

(A) FIELD SERVICE AND ACTIVITY REPORT. USI will provide to DIGIRAD *** , a detailed report outlining troubleshooting, service and maintenance activities in support of the Products. This report will include any trends, observations and recommendations gained from the USI's Field Service organization.

(B) OTHER PARTS AND SERVICE REPORTS. USI agrees to work in good faith with DIGIRAD to initiate and provide other reports, as appropriate, to support the Service of the Products and to satisfy the inventory management needs of DIGIRAD. Such request from DIGIRAD shall not be unreasonable and USI shall not unreasonably withhold such written requested reports.

5.2 ADDITIONAL RECORDS. USI shall accurately maintain all records as necessary or appropriate to satisfy Applicable Law or to establish USI's compliance with the provisions of this Agreement or as otherwise reasonably requested by DIGIRAD, and shall provide DIGIRAD and its representatives *** to same (including the right to make copies of such records) during the term hereof, and for *** years after the termination of this Agreement.

6. TERM AND TERMINATION.

6.1 TERM OF AGREEMENT. This Agreement shall become effective as of the Effective Date and shall extend for *** months unless sooner terminated as provided herein (the "Initial Term").

6.2 TERMINATION. In the event of any material breach by a party, the non-breaching party may terminate this Agreement if such breach remains uncured *** days after the breaching party's receipt of written notice of such breach from the non-breaching party or immediately if such breach is of an incurable nature. Notwithstanding the foregoing, in the event that USI (i) is adjudicated bankrupt or insolvent or a receiver for its property is appointed or USI or any Member Company is subject to the commencement of proceedings of any nature against it under bankruptcy, insolvency or debtor's relief laws (which proceeding is not vacated or set aside within sixty (60) days of commencement), (ii) voluntarily files a bankruptcy petition, or otherwise seeks relief under bankruptcy, insolvency or debtor's relief laws (which filing is not withdrawn within one hundred twenty (120) days of filing), (iii) provides services outside the Territory on Digirad Products,) (iv) purchases Spare Parts from other than DIGIRAD, (iv) materially breaches a provision of this Agreement of a non-curable nature (including, without limitation), (v) makes a non-permitted assignment, transfer or delegation of this Agreement, (vi) fails to comply with Applicable Laws in connection herewith, or (vii) repeats a breach of the same provision hereof, DIGIRAD may, in its sole determination and at its option, terminate this entire Agreement by giving written notice effective as of the date thereof. DIGIRAD, in its sole discretion, may terminate this Agreement with *** days written

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notice in the event of the dissolution, merger or consolidation of the USI or any other transaction or series of related transactions effecting a change in fifty percent (50%) or more of the ownership or voting control of the USI or the transfer of all or substantially all of a USI's business, assets or stock in whatever form of corporate transaction or transactions (a "Corporate Sale"). Acceptance or satisfaction of any Service order by DIGIRAD after notice of breach, termination or expiration shall not be construed as a revival renewal or extension of this Agreement nor as a waiver or withdrawal of any notice of termination, expiration or breach.

6.3 NO TERMINATION DAMAGES. Neither USI nor DIGIRAD shall by reason of any permitted termination or expiration hereunder be liable to the other for, and each shall release and hold the other harmless from, all claims of any nature, including (without limitation) claims for compensation, reimbursement or damages on account of the loss of prospective profits on anticipated sales, or on account of expenditures, investments, leases or commitments in connection with the business or goodwill of either party, resulting from or arising out of such termination or expiration, or for any other indirect, special or consequential damages.

6.4 RECLAMATION AND REPURCHASE OF INVENTORY. Upon termination of this Agreement, USI will, within *** days, return to DIGIRAD all inventory of Spare Parts which have not been invoiced by DIGIRAD for payment by USI. Upon termination of this Agreement, *** *** ***

6.5 EFFECT OF TERMINATION OR EXPIRATION. Notwithstanding any other provision hereof, the provisions of this Agreement which by their nature create rights or obligations that should survive the expiration or termination of this Agreement in its entirety, or the expiration or termination of any Sections hereof, shall so survive, including (without limitation) the rights and obligations under Sections 6.3, 7, 8, 9, 10, and 11 and the obligation to pay any purchase price, invoices and charges for Spare Parts hereunder. DIGIRAD and USI agree to satisfy and remit to one another all properly invoiced payments for Spare Parts and/or Service within *** days of termination or expiration of this Agreement in its entirety or any Section or Sections hereof. Within *** days after the expiration or the termination of this

Agreement in its entirety for any reason, the parties shall promptly return to one another all property and other materials of the other party in their respective possessions, including all media (and copies thereof) containing confidential information of DIGIRAD and including without limitation all marketing materials, customer lists, placement records, and service records. Upon termination or expiration, if USI has any right, title or interest in any Mark (as defined in Section 7), USI shall immediately assign all such right, title and interest in and to such Mark to DIGIRAD and shall take all necessary action to ensure that DIGIRAD obtains the full benefit thereof. Termination is not the sole remedy under this Agreement and, whether or not termination is effected, all other remedies shall remain available.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

7. CONFIDENTIAL INFORMATION AND PROPRIETARY RIGHTS.

7.1 CONFIDENTIALITY. The proprietary information exchange agreement between USI and DIGIRAD, shall remain in effect throughout the term of this Agreement and shall survive the term of this Agreement.

7.2 TRADEMARK RIGHTS. DIGIRAD hereby grants to the USI the nonexclusive limited right to use its trade names, trademarks, service marks and other trade designations, including the name "Digirad" or Digirad Corporation", ("Marks") solely in connection with the service of Products as provided for herein. USI shall submit any materials prepared by USI which describe Products or use Marks to DIGIRAD for written approval prior to release. DIGIRAD shall use its best efforts to respond to such requests for approval within *** business days. DIGIRAD reserves the right to reject any such materials which DIGIRAD, in its sole discretion, deems potentially injurious to DIGIRAD's business. USI SHALL NOT (i) alter or remove any Marks applied to or used in conjunction with a Product by DIGIRAD, (ii) attach any additional trade name, trademark, service mark or other trade designation to any Product, (iii) use any Marks as part of USI's name or mark or in any other manner as would cause a reasonable person to infer that USI has an affiliation with DIGIRAD other than the rights provided under this Agreement to service Products or (iv) use any Mark in a way that implies USI is an agent, franchise, representative or branch of DIGIRAD. USI shall immediately change or discontinue the use of any Marks on written request from DIGIRAD. At no time during or after the term of this Agreement shall USI challenge or assist others to challenge DIGIRAD's ownership or registration of any Mark or attempt to use or register any trademark, service mark, trade name or other trade designation which is confusingly similar to any Mark of DIGIRAD. USI shall, on termination or expiration of this Agreement, cease the use of DIGIRAD's Marks and shall surrender to DIGIRAD all price lists, catalogs, promotional literature and similar items.

7.3 PUBLICITY AND PRESS RELEASES. Except to the extent necessary under applicable laws, *** that no press releases or other publicity relating to the existence or substance of the matters contained herein will be made without ***

8. INSURANCE. Upon execution of this Agreement, DIGIRAD shall provide USI with evidence of product liability insurance as required to cover its obligations and activities under this Agreement, and USI shall provide DIGIRAD with evidence of product liability insurance for USI as required to cover their obligations and activities under this Agreement. Such insurance shall be issued by a reputable carrier and on terms reasonably acceptable to the other party. USI and DIGIRAD agree to maintain at least such coverage during the term hereof and for *** years thereafter and to provide the other party with *** days prior written notice of any change, and immediate written notice of cancellation with respect thereto. Insurance coverage by USI and DIGIRAD shall be for at least *** for each claim under such policy and for at least *** in the aggregate.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

9. INDEMNIFICATION.

9.1 DIGIRAD. DIGIRAD agrees to indemnify, defend and hold harmless USI and its officers, directors, stockholders, affiliates, employees and agents against any and all threatened or pending claims, actions, losses and damages of any kind (including all costs and expenses and reasonable attorneys' fees) arising in any manner out of any of DIGIRAD's activities contemplated by the Agreement and due to the extent of (a) the intentional wrong or negligence

of DIGIRAD, (b) any defect in the Products existing at the time of delivery to end user, (c) DIGIRAD's breach of the terms hereof or (d) any claims by a third party that Products infringe upon intellectual property rights of such third party.

9.2 USI. USI agrees to indemnify, defend and hold harmless DIGIRAD and its officers, directors, stockholders, affiliates, employees and agents against any and all threatened or pending claims, actions, losses and damages of any kind (including all costs and expenses and reasonable attorneys' fees) arising in any manner out of any of USI's activities contemplated by the Agreement and due to the extent of (a) the intentional wrong or negligence of USI, (b) any change or alteration of the Products by the USI coming into existence after the time of delivery, or (c) USI's breach of the terms hereof.

10. RELATIONSHIP BETWEEN PARTIES. The relationship between USI and DIGIRAD under this Agreement is intended to be that of independent contractors. Nothing in this Agreement is intended to be construed so as to constitute USI and DIGIRAD as partners or joint venturers, or either party hereto as the employee, agent or legal representative of the other party. USI agrees that it shall not hold itself out as an agent of DIGIRAD or claim or represent that it is operating or doing business as a DIGIRAD sales office, nor shall USI purport to pledge the credit of or enter into any agreement or commitment for DIGIRAD. This Agreement does not convey nor shall USI claim any property interest in DIGIRAD's corporate name, Marks, patents, patent applications, trade secrets, processes or other proprietary or intangible property rights. Each party shall be obligated to use its reasonable commercial efforts to assure that its employees, or other persons whose services it may require, comply with all of the terms of this Agreement. DIGIRAD is in no manner associated with or otherwise connected with the actual performance of this Agreement on the part of USI, nor with USI's employment of other persons or incurring of expenses.

11. MISCELLANEOUS.

11.1 NOTICES. All notices, orders, authorizations, approvals, reports and other communications required or permitted herein shall be in writing and shall be delivered personally (which shall include delivery by courier or reputable overnight delivery service) or sent by certified or registered mail, postage prepaid, return receipt requested or sent by facsimile transmission. Items delivered personally or by facsimile transmission shall be deemed delivered on the date of delivery; items sent by certified or registered mail shall be deemed delivered three (3) days after mailing. The address of the parties for purposes of this provision are as follows (as may be amended pursuant to a notice delivered hereunder):

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

USI:	DIGIRAD:
Universal Servicetrends, Inc.	
c/o Servicetrends	Digirad Corporation
3655 Kennesaw 75 Parkway	9350 Trade Place
Suite 135	San Diego, CA 92126-6334
Attn: Robert E. Buscher,	Attn: President & CEO
Chief Executive Officer	Phone: (858) 578-5300
Phone: 770-970-5009	Fax: (858) 549-7714
Fax No.: 770-970-5004	

11.2 ASSIGNMENT, TRANSFER, AMENDMENT AND WAIVER. USI shall not delegate any duties or assign or transfer any rights under this Agreement without DIGIRAD's prior written consent in its sole discretion. A Corporate Sale (as defined in Section 6.2) of USI shall be deemed an assignment requiring prior written consent by DIGIRAD. Subject to the foregoing, this Agreement shall bind and inure to the benefit of the parties and their respective successors and assigns. No modification, amendment, termination, supplement or waiver of this Agreement shall be binding unless made in writing clearly identified as a modification, amendment, termination, supplement or waiver and signed by USI and an authorized representative of DIGIRAD. No waiver shall be implied from conduct or a failure to enforce rights or a delay in enforcing rights, including any delay by DIGIRAD in exercising or asserting its right to terminate this Agreement due to USI's breach of its obligations hereunder.

11.3 ENTIRE AGREEMENT. This Agreement represents the entire agreement between the parties relating to the subject matter hereof and supersedes all prior and contemporaneous representations, understandings, discussions, negotiations, correspondence, commitments and agreements, whether written or oral. USI has not relied on any representation, agreement or understanding not expressly set forth herein. In the event that any provision of this Agreement is determined to be illegal or otherwise unenforceable, such provision shall be construed as if it were written so as to be legal and

enforceable to the maximum extent possible, the entire Agreement shall not fail on account thereof, and the balance of the Agreement shall be continued in full force and effect, all so as to effectuate to the greatest extent possible the parties' intent. No person not a party to this Agreement shall have any rights by reason of this Agreement nor shall any party hereto have any obligations or liabilities to such other person by reason of this Agreement. All exhibits (INCLUDING, BUT NOT LIMITED TO, THE STANDARD TERMS AND CONDITIONS ATTACHED HERETO AS EXHIBIT E) referred to herein are deemed incorporated by this reference as if fully set forth herein.

11.4 FURTHER ASSURANCES. Each party hereto agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

11.5 FORCE MAJEURE. Except for the obligation to pay amounts due and owing by USI, neither party shall be liable for any delay for failure in performance due to any reason or unforeseen circumstances beyond the affected party's reasonable control, including acts of God

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or public authorities, war and war measures, civil unrest, fire, earthquakes, epidemics, inevitable accidents, delays in transportation, delivery or supply, labor disputes, excessive demand for Products or other interruption in the manufacture, supply or distribution of Products. The obligations and rights of the excused party shall be extended on a day-to-day basis for the time period equal to the period of the excusable delay.

11.6 GOVERNING LAW. The parties agree that this Agreement shall be governed by and construed under the internal laws of the State of California, as applicable to agreements made and to be performed in such state, without regard to principles of conflicts of law.

11.7 DISPUTE RESOLUTION.

a. ARBITRATION. All disputes that in any manner arise out of or relate to this Agreement or its subject matter shall be resolved *** *** *** The parties shall have the right to conduct discovery in accordance with the laws of California. *** *** Arbitration shall take place in San Diego, California, unless the parties otherwise agree. Notwithstanding the foregoing, no action involving professional malpractice allegations, and no action brought by a third party shall be subject to this arbitration provision.

b. ATTORNEYS' FEES. In the event of any action or proceeding (including, without limitation, arbitration) brought by *** ***

11.8 CAPTIONS. Section captions are inserted for convenience only and in no way are to be construed to define, limit or affect the construction or interpretation hereof

11.9 BASIS OF BARGAIN. ALL PARTIES RECOGNIZE AND AGREE THAT THE WARRANTY DISCLAIMERS AND LIABILITY AND REMEDY LIMITATIONS IN THIS AGREEMENT ARE MATERIAL BARGAINED FOR BASES OF THIS AGREEMENT AND THAT THEY HAVE BEEN TAKEN INTO ACCOUNT AND REFLECTED IN DETERMINING THE CONSIDERATION TO BE GIVEN BY EACH PARTY UNDER THIS AGREEMENT AND IN THE DECISION BY EACH PARTY TO ENTER INTO THIS AGREEMENT.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the Effective Date. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

Universal Servicetrends, Inc. a Delaware Corporation	DIGIRAD CORPORATION, a Delaware Corporation
By: /s/ Robert E. Buscher	By: /s/ Robert E. Johnson

Name: Robert E. Buscher	Name: Robert E. Johnson
Title: Chief Executive Officer	Title: V.P. Sales & Customer Service

[SIGNATURE PAGE TO DISTRIBUTION AGREEMENT]

EXHIBIT A
"TERRITORY"

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EXHIBIT B
"PRODUCTS LIST"

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EXHIBIT C
"PRODUCT SPECIFICATIONS"

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EXHIBIT D
"FIELD SERVICE PURCHASE ORDER"

To be developed

EXHIBIT E
"STANDARD TERMS AND CONDITIONS"

THE TERMS CONTAINED HEREIN AND IN THE ATTACHED SERVICE AGREEMENT (THE "AGREEMENT") BETWEEN DIGIRAD AND USI APPLY TO ALL SPARE PARTS AND RELATED ARRANGEMENTS BETWEEN DIGIRAD AND USI. THESE TERMS SHALL BE APPLICABLE WHETHER OR NOT ATTACHED TO OR ENCLOSED WITH SPARE PARTS SOLD HEREUNDER. REFERENCES BELOW TO SECTIONS AND EXHIBITS ARE REFERENCES TO THE AGREEMENT. ANY CHANGES IN THE TERMS CONTAINED HEREIN MUST SPECIFICALLY BE AGREED TO IN WRITING BY AN AUTHORIZED REPRESENTATIVE OF DIGIRAD AS PROVIDED IN THE AGREEMENT.

1. Orders.

USI shall submit any order ("Order") for Spare Parts in writing to

DIGIRAD at the address set forth in the Agreement, which Order shall reference the Agreement and shall set forth the quantities, descriptions, applicable purchase price and requested delivery date for the Spare Parts ordered together with commercially reasonable shipping instructions and an assigned USI or Member Company purchase order number, or some other mutually verifiable method. All Orders are subject to written acceptance by DIGIRAD in its sole discretion. DIGIRAD will use its best efforts to provide written acceptance of such Orders within *** business days of receipt. DIGIRAD shall not be liable for failure to make or delay any shipment or delivery.

2. Inspection.

USI shall promptly inspect the Spare Parts upon receipt and either accept, or reject and describe deficiencies in writing within *** days of receipt. Spare Parts shall be deemed accepted by USI as fully conforming unless DIGIRAD receives a written notice of deficiencies within such *** day period. DIGIRAD reserves the right to make shipments in installments. Each shipment hereunder shall be a separate and independent transaction and shall be invoiced by DIGIRAD and payable by USI separately.

3. Terms of Payment and Delivery.

3.1 Payment Terms. All Spare Parts are sold *** with the net amount of the invoice (including all freight, transportation, insurance and similar charges) due within *** days from the invoice date, which shall be the *** USI may take a *** on the total invoice if paid within *** of invoice. USI shall owe DIGIRAD a late charge of *** on any delinquent balance hereunder, provided that in no event shall this monthly charge exceed the maximum amount allowed by law. USI shall pay all costs and expenses incurred by DIGIRAD in collecting delinquent amounts (including late charges) under this Section 3, including attorneys' fees and costs. DIGIRAD may accept partial payment on any invoice, which shall not constitute a waiver of DIGIRAD's right to collect the balance or an accord and satisfaction not withstanding DIGIRAD's endorsement of USI's check.

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DIGIRAD may at any time, either generally or with respect to any specific Order, change the amount or duration of credit to be allowed to USI by DIGIRAD, which may include requiring cash or letter of credit in advance of shipment or delivery or delaying or stopping acceptance of Orders from or shipments to USI, in the event USI has failed to pay previous amounts when due or USI's financial condition or creditworthiness, performance under this Agreement, or other actions make such action appropriate in DIGIRAD's reasonable sole judgment without waiving its claim for damages or other remedies. USI shall not take any credit or offset whatsoever against amounts owed to DIGIRAD without DIGIRAD's prior written authorization. Unless otherwise required by law, all prices shall be quoted and billed exclusive of federal, state and local excise, sales and similar assessments, taxes and charges. Such assessments, taxes and charges shall be the sole responsibility of USI and, if required to be paid by DIGIRAD, shall appear as additional items on invoices. If exemption from such taxes or charges is claimed, USI must provide a certificate of exemption and similar documentation at the time the Order is submitted to DIGIRAD. If shipments are delayed by USI, payments shall become due on the date that is *** days from the date that DIGIRAD is prepared to make shipment. Spare Parts held at USI's request shall be at the risk and expense of USI, including *** *** charge for any Spare Parts being held over *** days.

3.2 Risk of Loss and Title. All risk of loss or damage in transit of Spare Parts shall pass to USI upon DIGIRAD's delivery to a carrier with insurance regardless of any provisions for the payment of freight or insurance or the form or content of shipping documents. In DIGIRAD's sole discretion, transportation, insurance and similar charges shall be collected or, if prepaid, shall be subsequently billed to USI. USI must file all claims for loss or damage in transit with the carrier. USI shall receive title to the Spare Parts only upon payment in full for each respective Spare Part.

4. Recalls, Discontinuances and Alterations of Spare Parts.

4.1 Recalls and Discontinuances. DIGIRAD has at any time by written notice to USI, the right to recall or discontinue any Spare Parts in USI's inventory or in the marketplace. Such Spare Parts may include Spare Parts ordered but not yet shipped. USI agrees to return all such Spare Parts to DIGIRAD at the "ship to" address listed on DIGIRAD's written recall or discontinuance notice in accordance with DIGIRAD's written instructions and at DIGIRAD's expense. Recalled Spare Parts shall be returned by USI to DIGIRAD within *** days from the delivery of the written notice from DIGIRAD. Discontinued or altered Spare Parts shall be returned by USI to DIGIRAD within *** days from the delivery of the written notice from DIGIRAD.

4.2 Return Procedure and Terms. In order to return Spare Parts under all other conditions, except those specifically stated in the Section 4.1 herein, USI shall obtain a return goods authorization number ("RGA") from an authorized representative of DIGIRAD. All authorized returns must be received in their original container by DIGIRAD within *** days of the issue date of the RGA which shall be conspicuously borne on such container. DIGIRAD shall not accept Spare Parts not authorized to be returned. Any non-authorized Spare Parts shall be shipped back to USI with transportation and similar charges collect or, if USI fails

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to accept the return shipment, DIGIRAD shall store such returned Spare Parts and be entitled to charge USI for the costs of storage and handling. All returned Products and Spare Parts shall be subject to inspection or testing by DIGIRAD. USI shall not be entitled to any credit if the returned Spare Parts have been, in DIGIRAD's sole reasonable determination, improperly handled, stored, transported or used.

4.3 AMOUNT OF CREDIT. A credit may be allowed for properly returned Spare Parts in the Section 4.1 herein based on the applicable purchase price for the Spare Part. For all other conditions, except those specifically stated in the Section 4.1 herein, a credit may be allowed for properly returned Spare Parts based on the applicable purchase price for the Spare Part less any applicable restocking or other appropriate charges. All returns shall be shipped F.O.B. destination, freight, insurance, packing, restocking and other charges prepaid, on a carrier and with insurance selected by DIGIRAD.

4.4 ALTERATIONS. DIGIRAD may make alterations to the Spare Parts at any time which DIGIRAD deems necessary or appropriate to comply with industry standards or Applicable Laws or as DIGIRAD may otherwise determine to be reasonable, necessary or appropriate, and such altered Spare Parts shall be deemed to fully conform herewith.

5. LIMITED EXPRESS WARRANTY AND DISCLAIMER OF ALL OTHER WARRANTIES.

5.1 WARRANTY. For that time which is the earlier of (a) *** after Spare Part ships or (b) the date on which the Spare Parts are installed and accepted by end-users, DIGIRAD warrants to USI that Spare Parts sold to USI shall (i) be free from defects in workmanship and materials when transported, stored, handled, used and serviced in compliance with DIGIRAD's written materials for a period of *** months and (ii) shall conform in all material respects with the Specifications.

5.2 LIMITATION OF WARRANTY. DIGIRAD's sole liability under this warranty is limited to repairing the Spare Part, furnishing a replacement Spare Part, or issuing a credit for any such Spare Part, all at DIGIRAD's sole option, provided that: (a) DIGIRAD is promptly notified in writing of the defect in any Spare Part within the warranty period as provided above; (b) such Spare Parts are returned to DIGIRAD's warehouse in accordance with the Section 4 hereof and in a condition suitable for testing; and (c) DIGIRAD's examination of such items shall disclose to its reasonable satisfaction that the Spare Parts are defective and such defective state has not been caused by misuse, misapplication, abuse, neglect, alteration, accidents improper storage, transportation or handling, an act of God or other causes reasonably beyond DIGIRAD's control or occurring subsequent to the time of delivery of the Spare Parts to a carrier by DIGIRAD. Modification of a Spare Part by USI or any other party shall invalidate the above warranty. Any repair or replacement shall not extend the period within which such warranty can be asserted. The warranty herein may be asserted by USI only and not by USI's customers, end-users or other third persons and applies only to Spare Parts used in the Territory. DIGIRAD shall notify USI in writing if such Spare Parts are not subject to warranty adjustment and, unless disposition instructions as to such Spare Parts are received from USI within *** days of such

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notification, such Spare Parts shall be returned to USI freight, packing, insurance and other charges collect.

5.3 DISCLAIMER OF ALL OTHER WARRANTIES. USI ACKNOWLEDGES AND AGREES THAT THE PROVISIONS OF THIS WARRANTY AND THE INDEMNIFICATION PROVISIONS OF SECTION 9 OF THE AGREEMENT CONSTITUTE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE TO IT WITH REGARD TO DEFECTIVE SPARE PARTS. EXCEPT FOR THE EXPRESS WARRANTY PROVIDED IN THIS SECTION, ALL WARRANTIES, WHETHER EXPRESS, IMPLIED OR STATUTORY, AND ALL OBLIGATIONS AND REPRESENTATIONS AS TO PERFORMANCE, INCLUDING ALL

WARRANTIES WHICH MIGHT ARISE FROM COURSE OF DEALING OR CUSTOM OF TRADE AND INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR AS TO NON-INFRINGEMENT, ARE HEREBY EXPRESSLY EXCLUDED AND DISCLAIMED, BY DIGIRAD. NO AGENT, EMPLOYEE OR REPRESENTATIVE OF DIGIRAD HAS ANY AUTHORITY TO MAKE ANY AFFIRMATION, REPRESENTATION OR WARRANTY FOR DIGIRAD WITH RESPECT TO THE SPARE PARTS OTHER THAN SPECIFICALLY PROVIDED HEREIN.

5.4 USI OBLIGATIONS. USI shall not make any representations, or extend any warranties, express or implied, relating to the use, effectiveness or safety of the Spare Parts, except as expressly set forth in any end-user warranty furnished by DIGIRAD (if any). All other agreements between USI and its customers and their patients are the exclusive responsibility of USI and any commitment made by USI to such customers and/or patients with respect to the delivery, performance, suitability or other matters relating to the Spare Parts are USI's sole responsibility/. DIGIRAD may, at its sole discretion, include with Spare Parts shipped under this Agreement a copy of its standard end-user warranty. DIGIRAD reserves the right to amend (without notice) the terms and conditions of the end-user warranty. USI shall ensure that the end-user warranty included is passed through with the Spare Parts to the end-users thereof. Any end-user warranty is solely for the benefit of the end-user, and shall become effective on the date the end-user accepts the Spare Part by the end-user's signature on the Customer Delivery and Acceptance Report attached hereto as Exhibit P of the Agreement.

5.5 LIMITATION OF LIABILITY. IN THE EVENT THAT A SPARE PART DEFECT OR MALFUNCTION DIRECTLY OR INDIRECTLY CAUSES ANY DAMAGES OR INJURIES, DIGIRAD'S LIABILITY SHALL BE LIMITED-SOLELY TO: (A) THE REPAIR OR REPLACEMENT OF THE SPARE PART OR GIVING CREDIT FOR THE SPARE PART HEREUNDER IF THE APPLICABLE WARRANTY PERIOD DESCRIBED IN THAT CLAUSE HAS NOT EXPIRED; OR (B) INDEMNIFICATION OF USI IN ACCORDANCE WITH THE PROVISIONS OF SECTION 9 OF THE AGREEMENT. IF A COURT OF COMPETENT JURISDICTION SHALL FIND THAT ANY CLAUSE OF THIS SECTION IS UNCONSCIONABLE OR OTHERWISE UNENFORCEABLE, IT IS AGREED THAT DIGIRAD'S LIABILITY SHALL BE LIMITED SOLELY TO AN AMOUNT EQUAL TO DIGIRAD'S REPLACING THE MALFUNCTIONING OR DEFECTIVE SPARE PART. THE DAMAGE LIMITATION PROVIDED IN THE AGREEMENT AND THE REMEDIES STATED HEREIN SHALL BE EXCLUSIVE AND SHALL BE USI'S SOLE REMEDIES. NO

ACTION AGAINST DIGIRAD FOR BREACH HEREOF SHALL BE COMMENCED MORE THAN ONE (1) YEAR AFTER THE ACCRUAL OF THE CAUSE OF ACTION. INDEPENDENTLY OF ANY OTHER LIMITATION HEREOF, IT IS AGREED THAT IN NO EVENT SHALL DIGIRAD BE LIABLE WITH RESPECT TO THE SUBJECT MATTER OF THIS AGREEMENT, UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY, FOR SPECIAL, INCIDENTAL, EXEMPLARY, CONSEQUENTIAL OR INDIRECT DAMAGES OR FOR LOSS OF ANTICIPATED PROFITS TO DISTRIBUTOR, DISTRIBUTOR'S CUSTOMERS, END-USERS OR ANY OTHER PERSON.

EXHIBIT 10.30

DVI FINANCIAL SERVICES INC. Fully Executed Copy
MASTER EQUIPMENT LEASE LEASE NO. 2982
("MASTER LEASE") DATE: MAY 24, 2001

LESSOR:
DVI Financial Services Inc.
2500 York Road
Jamison, Pennsylvania 18929
Telephone (215) 488-5000
Facsimile (215) 488-5408

LESSEE: DIGIRAD IMAGING SOLUTIONS, INC.

BILLING ADDRESS: EQUIPMENT ADDRESS:

9350 Trade Place Mobile Unit Services Contracts in Florida
San Diego, CA 92126

TERMS AND CONDITIONS

1. LEASE.
Lessor leases to Lessee, and Lessee hires from Lessor, all of the tangible personal property (with all present and future accessories, additions, upgrades, attachments, repairs and replacement parts, collectively called "Equipment") described in each equipment schedule executed from time to time pursuant to this Master Lease ("Equipment Schedule"). Each equipment Schedule shall (a) be on Lessor's form, (b) incorporate all of the terms of this Master Lease, and (c) contain additional terms as Lessor and Lessee agree.

2. TERM.
(a) The term of this Master Lease shall being on the date set forth above and shall continue in effect so long as any Equipment Schedule remains in effect.
(b) The lease term for each Equipment Schedule shall begin on the date of shipment to Lessee of the Equipment (or any part thereof) described in such Equipment Schedule or such later date as Lessor may designate in writing (the "Commencement Date"), and shall continue thereafter for the term set forth in such Equipment Schedule. On the Commencement Date, Lessee shall execute and deliver to Lessor a Delivery and Acceptance Certificate, in a form to be specified by Lessor, which confirms the Commencement Date.
(c) THIS LEASE AND THE LEASE TERM FOR EACH EQUIPMENT SCHEDULE ARE NOT CANCELABLE BY LESSEE.

3. RENT AND PAYMENT.
Lessee shall pay Lessor, as rental for the Equipment during each month of the term of any Equipment Schedule, the monthly rent set forth in such Equipment Schedule, together with any and all monthly rent payable pursuant to Section 8(a) hereof in connection with any accessions, additions, upgrades with attendant maintenance contracts, and improvements to any of the Equipment, which shall be payable in advance without notice or demand on the dates set forth in such Equipment Schedule. Lessee agrees to pay interim rent in an amount equal to the pro rata periodic monthly rent from the Commencement Date to the first regular monthly periodic rent payment date. Thereafter, the regular periodic rent shall be due on the first day of each succeeding period commencing with the first day of the month following the Commencement Date as set forth on the Equipment Schedule. Lessee shall pay the monthly rent and all other money due under this Master Lease or any Equipment Schedule by check or wire transfer so as to constitute immediately available funds at Lessor's address set forth above or at such other place as Lessor shall designate in writing, or if to an assignee of Lessor, at such place as such assignee shall designate in writing, and Lessee shall make such payments free and clear of all claims, demands or setoffs against Lessor or such assignee. Whenever any payment (of rent or otherwise) is not made within ten (10) days from the date due hereunder, Lessee shall pay Lessor a late charge of five percent (5%) of any payment not paid when due, plus the lesser of eighteen percent (18%) interest per year or the highest lawful rates on such payment until received, or such lesser maximum amount as is permitted by applicable law. In addition, Lessor at its option may require at any time that Lessee make all payments due hereunder or under any Equipment Schedule by certified check or by wire transfer.

4. REQUEST FOR EQUIPMENT.
Lessee requests Lessor to order the Equipment described in any Equipment Schedule executed by Lessee from the supplier named in such Equipment Schedule, to arrange for delivery to Lessee at Lessee's expense, and to pay for the Equipment as provided in such Equipment Schedule. Lessee acknowledges and agrees that: (a) Lessee has independently selected the supplier and the Equipment, and that Lessor will rely on specifications provided by Lessee in ordering the Equipment; (b) Lessee shall be responsible for all costs and expenses relating to the selection, shipment, delivery, assembly, installation, testing, adjusting, servicing, operation and acceptance of the Equipment; (c)

unless the Equipment Schedule otherwise provides, Lessor's payment to the supplier will occur only after Lessee has confirmed (on Lessor's Delivery and Acceptance Certificate) satisfactory delivery, assembly, installation, inspection and acceptance of the Equipment; (d) Lessor shall have no responsibility for any delay, failure or refusal on the part of any supplier to accept or fill Lessor's order; (e) upon Lessee's acceptance of Equipment, Lessee shall execute Lessor's Delivery and Acceptance Certificate; (f) Lessor has the option to terminate any Equipment Schedule and all obligations to Lessee under such Equipment Schedule, and to recover from Lessee any deposit paid by Lessor to the supplier, if the Equipment described in such Equipment Schedule has not been delivered, assembled, installed and accepted by Lessee within 60 days from the date that Lessor orders the Equipment; (g) no supplier is Lessor's agent, or authorized to bind Lessor or waive or alter any provision of this Master Lease or any Equipment Schedule; and (h) if Lessee cancels this Master Lease after execution of such but prior to the Lessee's execution of the Delivery and Acceptance Certificate, Lessor may withhold and keep any deposits or funds paid by Lessee to Lessor.

5. EQUIPMENT SELECTION; DISCLAIMER OF WARRANTIES; WAIVERS.

(a) Lessee acknowledges, represents and warrants that Lessee has made the selection of Equipment based on Lessee's own judgment, and expressly disclaims any reliance upon statements made by Lessor or Lessor's agents, employees or salespersons.

(b) LESSOR MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE CAPACITY, CONDITION, DESIGN, DURABILITY, MATERIAL, MERCHANTABILITY, PERFORMANCE, QUALITY, SUITABILITY, WORKMANSHIP OR VALUE OF THE EQUIPMENT OR ITS FITNESS FOR ANY PARTICULAR PURPOSE OR THAT THE EQUIPMENT WILL SATISFY THE REQUIREMENTS OF ANY LAW, RULE, REGULATION, SPECIFICATION OR CONTRACT, OR ANY OTHER REPRESENTATION OR WARRANTY OF ANY KIND OR NATURE WHATSOEVER WITH RESPECT TO THE EQUIPMENT OR ANY ASSOCIATED ITEM OR ANY ASPECT THEREOF. AS TO THE LESSOR, LESSEE LEASES THE EQUIPMENT "AS IS".

(c) Lessee acknowledge that (i) Lessor is neither the manufacturer of the Equipment nor a manufacturer's agent, supplier or dealer, and has no familiarity with the Equipment; and (ii) Lessor shall have no obligation to assemble, install, test, adjust or service the Equipment.

(d) Lessor shall not be liable, to Lessee or otherwise, to any extent whatsoever, for the selection, quality, condition, merchantability, suitability, fitness, operation or performance of the Equipment. Without limiting the generality of the foregoing, Lessor shall not be liable, to Lessee or otherwise, for any liability, claim, loss, damage or expense of any kind or nature (including strict negligent liability in tort) caused, directly or indirectly, by the Equipment or any inadequacy thereof for any purpose, or any deficiency or defect therein, or the use or maintenance thereof, or any repairs, servicing or adjustments thereto; or any delay in providing or failure to provide any part thereof, or any interruption or loss of service thereof, or any loss of business, or any damage whatsoever and howsoever caused.

(e) REGARDLESS OF CAUSE, LESSEE WILL NOT ASSERT ANY CLAIM WHATSOEVER AGAINST LESSOR FOR LOSS OF ANTICIPATORY PROFITS OR ANY OTHER INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES. IT IS EXPRESSLY UNDERSTOOD AND AGREED THAT EACH AND EVERY PROVISION OF THIS

AGREEMENT WHICH PROVIDES FOR A LIMITATION OF LIABILITY, DISCLAIMER OF WARRANTIES OR EXCLUSION OF DAMAGES, IS INTENDED BY THE PARTIES TO BE SEVERABLE FROM ANY OTHER PROVISION AND IS A SEPARABLE AND INDEPENDENT ELEMENT OF RISK ALLOCATION AND IS INTENDED TO BE ENFORCED AS SUCH.

(f) If the Equipment fails to comply with any representation or warranty made by the supplier or manufacturer thereof, or is defective or improperly assembled or installed or otherwise unsatisfactory for any reason, Lessee shall make claim on account thereof against the supplier or manufacturer thereof, and Lessee shall nevertheless pay all rent and perform all other obligations under this Master Lease and all Equipment Schedules without asserting any claim against Lessor. Lessor hereby assigns to Lessee, without recourse and solely for the purpose of prosecuting such a claim, all rights that Lessor may have against the supplier and manufacturer of Equipment for breach of warranty or other representations with respect to the Equipment; provided, however that this assignment shall not preclude Lessor, in its sole discretion from asserting and prosecuting such a claim. Lessee shall indemnify and hold Lessor harmless from and against any and all claims, costs, expenses, damages, losses and liabilities incurred or suffered by Lessor as a result or incident to any such action by Lessee for breach of warranty or other representations with respect to the Equipment.

(g) Lessor makes no representation or warranty as to the treatment of this Master Lease or any Equipment Schedule for tax or accounting purposes or otherwise.

(h) Lessee hereby waives its rights and remedies under the Uniform Commercial Code Section 2A-508 through 2A-522 with respect to Lessee's right to cancel any Equipment Schedule, reject any of the Equipment, recover damages or any other rights and remedies provided thereunder in connection with any default by Lessor or any other circumstances therein provided.

6. TITLE AND ASSIGNMENT.

(a) Nothing contained in this Master Lease, or in any Equipment Schedule, shall give or convey to Lessee any right, title or interest in or to the Equipment, or any additions, upgrades, accessions, or improvements thereto, except as a Lessee as set forth in this Master Lease and such Equipment

Schedule, and Lessee represents and agrees that Lessee shall hold the Equipment subject and subordinate to the rights of the owner thereof. The Equipment is and at all times shall remain the property of Lessor (or Lessor's successor in interest), and except as expressly set forth in this Master Lease or any Equipment Schedule, Lessee shall have no right, title, equity or interest in the Equipment and no right or option to purchase or otherwise acquire title to or ownership of the Equipment. Lessee shall, at Lessee's sole cost and expense: (i) defend and protect the ownership of, title to, and interest in the Equipment of Lessor, Lessor's successors in interest, and any assignee or secured party, against all parties claiming against or through Lessee; (ii) keep the Equipment free and clear from any legal process, liens, claims, demands and encumbrances (except those incurred by Lessor); and (iii) give Lessor prompt written notice of any legal process, liens, claims, demands and encumbrances made by any party (except Lessor) with respect to the Equipment. Lessee shall, and Lessor may on behalf of Lessee, at Lessee's expense, execute and file such financing statements, applications for registration and other documentation as Lessor shall require for the purpose of protecting or perfecting the interest of Lessor, or any assignee, transferee or secured party, in the Equipment.

(b) Lessee shall, at Lessee's expense, affix to the Equipment such labels, signs or other devices as Lessor may supply to identify Lessor as the owner and Lessor of the Equipment. Lessee authorizes Lessor to insert in any Equipment Schedule and in any financing statement or other documents the serial numbers and other identification data of the Equipment when determined by Lessor. The Equipment is and at all times shall remain personal property regardless of any attachment or affixation of the Equipment to any real property or improvements thereon.

(c) LESSEE SHALL NOT, WITHOUT LESSOR'S PRIOR WRITTEN CONSENT, (i) ASSIGN THIS MASTER LEASE OR ANY EQUIPMENT SCHEDULE OR ANY INTEREST HEREIN OR THEREIN, (ii) ENTER INTO ANY SUBLEASE, LOAN OR SIMILAR ARRANGEMENT WITH RESPECT TO THE EQUIPMENT, OR (iii) TRANSFER, ASSIGN, CONVEY, ENCUMBER, PLEDGE OR OTHERWISE DISPOSE OF ANY EQUIPMENT OR ANY INTEREST THEREIN; AND ANY ATTEMPT BY LESSEE TO DO ANY OF THE FOREGOING WITHOUT LESSOR'S PRIOR WRITTEN CONSENT SHALL BE VOID.

(d) Lessee shall keep, maintain and use the Equipment only at the place designated on the Equipment Schedule, and shall not move the Equipment to any other location without the Lessor's prior written consent.

(e) This Master Lease and any rights of Lessor hereunder and under any Equipment Schedule shall be assignable by Lessor without notice to or the consent of Lessee. Lessee acknowledges and understands that the terms and conditions of each Equipment Schedule have been fixed by Lessor in anticipation of Lessor's ability to sell and assign its interest or grant a security interest under each Equipment Schedule and the Equipment listed therein in whole or in part to a security assignee (the "Secured Party") for the purpose of either assigning: (i) Lessee's obligation to pay rent pursuant to such Equipment Schedule (Lessor having transferred the right to receive such rent to the Secured Party), or (ii) securing a loan to Lessor. Lessor may also sell and assign its rights as owner and lessor of the Equipment under any Equipment Schedule to an assignee (the "Assignee") which may be represented by a bank or a trust company acting as a trustee (the "Owner Trustee") for the Assignee. After such assignments the term Lessor shall mean, as the case may be, such Assignee or Owner Trustee and any Secured Party (collectively "Lessor Transferee"). Lessee acknowledges and agrees that:

(1) Any such Lessor Transferee shall have and be entitled to exercise any and all discretion, rights and powers of Lessor hereunder or under any Equipment Schedule, but such Lessor Transferee shall not be obligated to perform any of Lessor's obligations hereunder or under any Equipment Schedule; provided, however, that such Lessor Transferee shall not disturb Lessee's quiet and peaceful possession of the Equipment and use thereof for its intended purpose during the terms hereof so long as Lessee is not in default of any provision hereof and such Lessor Transferee continues to timely receive all amounts of [illegible] payable under such Equipment Schedule;

(2) Lessee will pay all rent and any and all other amounts payable by Lessee under any Equipment Schedule to such Lessor Transferee, notwithstanding and Lessee hereby waivers any defense or claim of whatever nature, whether by reason of breach of such Equipment Schedule or otherwise, which Lessee may or might now or hereafter have as against Lessor or any prior Lessor Transferee (Lessee reserving its right to have recourse directly against Lessor on account of any such defense or claim); and

(3) Subject to and without impairment of Lessee's leasehold rights in and to the Equipment, Lessee holds the Equipment for such Lessor Transferee to the extent of such Lessor Transferee's rights therein.

7. NET LEASE, TAXES AND FEES.

(a) Lessor and Lessee acknowledge and agree that each Equipment Schedule constitutes a net lease and that Lessee's obligation to pay all rent and any and all amounts payable by Lessee under any Equipment Schedule shall be absolute and unconditional, and shall not be subject to any abatement, reduction, setoff, defense, counterclaim, interruption, deferment or recoupment for any reason whatsoever; and that such payments shall be and continue to be payable in all events.

(b) Lessee shall, at Lessee's sole cost and expense and in addition to the rent due under any Equipment Schedule, promptly pay all taxes, assessments, license fees, permit fees, registration fees, fines, interest, penalties and all other governmental charges (including without limitation income, gross receipts, sales, use, excise, personal property, ad valorem, stamp, documentary and other taxes), whether levied, assessed or imposed on Lessee, Lessor, the Equipment or

otherwise, relating to the Equipment or the delivery, leasing, operations, ownership, possession, purchase, registration rental, sales or use thereof during the term of any Equipment Schedule, or the interest of Lessee in the Equipment or under any Equipment Schedule, or the rental or other payments thereunder or earnings arising therefrom (excepting only taxes on Lessor's net income). Lessee shall file all returns required in connection therewith and shall promptly furnish copies to Lessor. Lessee shall reimburse Lessor for any such taxes paid by Lessor within ten (10) days of receipt of Lessor's invoice therefor. Any applicable sales tax will be paid to the manufacturer, manufacturer's agent, supplier, dealer or appropriate taxing agency by Lessor. Where applicable, Lessee acknowledges that such tax may have been included in calculating lease payment.

8. CARE, USE, MAINTENANCE AND REPAIR, AND INSPECTION BY LESSOR.

(a) Lessee shall, at Lessee's sole expense, at all times during the term of such Equipment Schedule and until return of the Equipment to Lessor, (i) maintain the Equipment in good operating order, repair, condition, appearance and protect the Equipment from deterioration, and provide all accessories, upgrades, repairs, replacement parts and service required therefor; (ii) enter into and maintain a maintenance contract with the manufacturer of the Equipment or, with the prior written consent of Lessor, with such other party as shall be acceptable to Lessor, and shall provide Lessor with a copy of such contract and all supplements thereto; (iii) use the Equipment in a careful, proper and lawful manner in accordance with standards, specifications or instructions issued by the manufacturer, and provide necessary site preparation, supplies, energy and personnel; (iv) comply with all of the laws, ordinances, rules, regulations and other requirements relating to the installation, possession, use or maintenance of the Equipment, including the requirements of any applicable insurance policy or warranty; (v) obtain and comply with the requirements of all

permits, licenses and agreements relating to the installation, possession, use or maintenance of the Equipment; and (vi) purchase, or permit Lessor to purchase, any and all additions, improvements, upgrades (as and when any upgrades may become available) and maintenance contracts associated with such upgrades, or accessions to any of the Equipment which Lessor may permit or require Lessee to acquire or which Lessor may, at its option, elect to acquire, with the cost of any and all such additions, improvements, upgrades, maintenance contracts or accessions to be treated as additional original equipment cost with respect to the applicable items of Equipment and which additional cost shall be amortized as additional rental payments by increasing the monthly rental amount payable under Section 3 hereof by the amount corresponding to the amount which would be payable as monthly rent hereunder as if such additional cost constituted a portion of the original equipment cost of the applicable Equipment for Equipment to be leased under the applicable Equipment Schedule for a term equal to the remaining lease term of the applicable Equipment Schedule.

(b) Unless Lessor otherwise consents in writing, Lessee shall not: (i) part with possession of or control over the Equipment; (ii) permit any party other than Lessee and Lessee's qualified employees to operate the Equipment; (iii) permit any nonqualified party to repair or service the Equipment; (iv) permit the Equipment to be used for personal, family, household or agricultural purposes; or (v) make any additions, alterations or improvements to the Equipment other than as required or permitted by the terms of this Master Lease. All repairs, replacement parts, alterations, additions, improvements, upgrades and accessions to any of the Equipment, whether or not any of the foregoing was authorized, required, financed or purchased by Lessor, shall become the property of Lessor.

(c) Upon the request of Lessor, Lessee shall at reasonable times during business hours make the Equipment available to Lessor for inspection at the place where it is normally located and shall make Lessee's log and maintenance records pertaining to the Equipment available to Lessor for inspection.

9. LESSEE'S REPRESENTATIONS AND WARRANTIES.

Lessee hereby represents, warrants and agrees that, with respect to this Master Lease and each Equipment Schedule:

(a) The execution, delivery and performance thereof by Lessee have been duly authorized by all necessary corporate or partnership action.

(b) Each individual executing such was duly authorized to do so.

(c) This Master Lease and each Equipment Schedule constitute legal, valid and binding agreements of Lessee enforceable in accordance with their terms.

(d) The Equipment is personal property and when subjected to use by Lessee will not become fixtures under applicable law.

(e) During the lease term, Lessee shall deliver and shall cause all obligators, guarantors and parties whose contracts with Lessee are used as additional collateral under this Master Lease to deliver to Lessor audited or reviewed financial statements for each of such party's most recent fiscal years ended, tax returns and unaudited financial statements certified by such party for the most recent quarter ended, consisting of at least a balance sheet, income statements and statements of changes in financial position, and any other information requested by Lessor from time to time, prepared in accordance with generally accepted accounting principles.

(f) Lessee shall provide any and all monthly operating statistics or data and shall use its best efforts to obtain from any party benefiting from the use of the Equipment through services provided by the Lessee any and all

operating statistics, data, or information requested by Lessor from time to time.

(g) The execution, delivery and performance of this Master Lease and each Equipment Schedule will not violate any law or regulation applicable to Lessee, or cause a default under any agreement to which Lessee is a party or is subject.

10. DELIVERY AND RETURN OF EQUIPMENT.

Lessee hereby assumes the full expense of transportation and in-transit insurance to Lessee's premises and installation thereat of the Equipment. Upon termination (by expiration or otherwise) of each Equipment Schedule, Lessee shall, pursuant to Lessor's instructions and at Lessee's expense (including without limitation expenses of transportation and in-transit insurance), return the Equipment to Lessor in the same operating order, repair, condition and appearance as when received, less normal depreciation and wear and tear. Lessee shall have the Equipment deinstalled and removed from its location only by the manufacturer of the Equipment, or by such other party as shall have been previously approved in writing by Lessor. The manufacturer or such other preapproved party shall certify in writing to Lessor at the time of such deinstallation that the Equipment includes all appropriate or required upgrades and that it is in good working order. Lessee shall transport the Equipment by means and return the Equipment to Lessor at such address all as shall be directed by Lessor. Lessee shall bear all costs of deinstallation, removal and return of the Equipment, including all costs as may be incurred by Lessee or Lessor to acquire the upgrades required under the terms of this Master Lease, to service and repair the Equipment and to otherwise put the Equipment in the condition required under this Section 10.

11. INSURANCE.

During the term hereof and until return of the Equipment to Lessor, Lessee shall, at Lessee's expense: (i) maintain insurance covering damage, destruction, loss or theft of the Equipment from any cause whatsoever for not less than an amount equal to the greater of the replacement value or the amount calculated pursuant to clause (vi) of Section 15(b) hereof; (ii) maintain public liability (including liability with respect to the use of the Equipment), professional liability insurance (covering Lessee and its employees and any and all other parties as may have possession of or as may operate any of the Equipment), and property damage insurance in an amount satisfactory to Lessor; (iii) maintain, if applicable as determined in the sole discretion of Lessor, business interruption and automobile insurance (where the Equipment constitutes mobile magnetic resonance imaging equipment or other mobile equipment); and (iv) promptly notify Lessor of any actual or alleged damage, destruction, liability, loss or theft relating to the Equipment or the use or operation thereof. All insurance shall be in form, substance and amount satisfactory to Lessor and/or Lessor's Transferee, shall contain a lender's form endorsement with waiver of breach of warranty clause (form 438-BFU or its equivalent), and shall be issued by insurers acceptable to Lessor, and shall name Lessor or any Lessor Transferee as loss payee with respect to all policies of property insurance and as an additional insured with respect to all other policies of insurance. Lessee shall obtain endorsements to all such policies of insurance which shall provide that any amendment or cancellation of any such policy shall not be effective unless Lessor shall have been given thirty (30) days' prior written notice of any such intended amendment or cancellation. Self-insurance is unacceptable unless Lessor shall so provide upon its prior written consent. Lessee shall deliver to Lessor originals or certified copies of such policies, certificates of coverage thereunder and loss payee, additional insured, [illegible] notice of amendment or cancellation endorsements. In addition, as collateral security for Lessee's obligations hereunder, and under the Equipment Schedules, Lessee hereby assigns, transfers and conveys to Lessor all of Lessee's right, title and interest in and to all of the foregoing policies of insurance and the insurance coverage provided thereunder and Lessee shall deliver and cause each insurer under each of such policies of insurance to deliver to Lessor assignments of such policies and coverage with assignments shall be in form and substance satisfactory to Lessor.

12. RISK OF LOSS.

During the term of each Equipment Schedule, and until return of the Equipment to Lessor, Lessee shall bear all risk of damage, destruction, loss or theft of the Equipment from any cause whatsoever. No damage, destruction, loss or theft of the Equipment or delay in payment or deficiency or absence of insurance proceeds, and no unavailability or delay in obtaining supplies, parts or service for the Equipment or failure of the Equipment to function for any cause whatsoever, and no change in laws or regulations governing or restricting the use of the Equipment (including the future enactment of any laws or regulations prohibiting the use of the Equipment), shall release Lessee of the obligation to pay rent or any other obligation hereunder. Upon the occurrence of any reparable damage, Lessee shall promptly make such repairs and restore the Equipment to good repair, condition and working order. Upon the occurrence of any irreparable damage, destruction for loss of the Equipment, Lessee shall, at Lessor's option: (i) replace the Equipment with like equipment in good repair, condition and working order with documentation creating clear title thereto in Lessor; or (ii) pay Lessor the amounts required under Section 15 of this Master Lease to the same extent as though a default had occurred hereunder. Subject to such conditions as Lessor may require, any insurance proceeds paid to Lessor as a result of any damage, destruction, loss or theft of the Equipment shall be applied to Lessee's obligations hereunder, provided that if the Equipment is not repaired or replaced as provided above, such insurance proceeds shall be applied first to Lessor's expected residual interest in the Equipment. Lessor shall have no obligation to collect or pursue any claim arising from any damage,

destruction, loss or theft of the Equipment, including any claim under any applicable insurance policy.

13. INDEMNITY.

Lessee shall, at Lessee's sole cost and expense, indemnify, hold harmless and defend Lessor and its agents, employees, officers and directors, and its successors in interest from and against any and all claims, actions, suits, proceedings, costs, expenses, damages and liabilities, including attorney's fees, arising out of, connected with, resulting from or relating to the Equipment or the condition, delivery, leasing, location, maintenance, manufacture, operation, ownership, possession, purchase, repair, repossession, return, sale, selection, service or use thereof, including without limitation: (i) claims involving latent or other defects (whether or not discoverable by Lessee or Lessor), (ii) claims for trademark, patent or copyright infringement, and (iii) claims for injury or death to persons or damage to property or loss of business or anticipatory profits, whether resulting from acts or omissions of Lessee or Lessor or otherwise.

Lessee shall give Lessor prompt written notice of any claim or liability covered by this section. The indemnities under this section shall survive the satisfaction of all other obligations of Lessee herein and the termination of this Master Lease or any Equipment Schedule.

14. SECURITY DEPOSIT.

For the purpose of securing all of Lessee's obligations under this Master Lease and each Equipment Schedule, Lessee grants Lessor a security interest in any security deposit described in any Equipment Schedule. Any such security deposit may be commingled with other funds and shall be held without interest to Lessee. Upon default under this Master Lease or any Equipment Schedule, Lessor may, but shall not be obligated to, apply any such security deposit to any obligation of Lessee under this Master Lease or any Equipment Schedule, in which event Lessee shall promptly restore the amount thereof on demand. Upon compliance by Lessee with all terms of this Master Lease and each Equipment Schedule Lessor shall, at the end of the term of each Equipment Schedule and the return of the Equipment to Lessor as provided herein, refund to Lessee the balance of any security deposit pertaining to such Equipment Schedule.

15. DEFAULT AND REMEDIES.

(a) The occurrences of any one or more of the following events ("Events of Default") shall constitute a default under this Master Lease and any Equipment Schedule: (i) Lessee's failure to pay rent or any other amount required under an Equipment Schedule when due; (ii) Lessee's failure to perform any other obligation or observe any other term of this Master Lease or any Equipment Schedule; (iii) any representation or warranty made to Lessor by Lessee or by any guarantor proves to have been false in any material respect when made; (iv) Lessee or any guarantor suffers a material adverse change in its financial condition; (v) an event of default shall have occurred under and be continuing under any other agreement involving the borrowing of money by Lessee or any guarantor; (vi) levy, seizure or attachment of any Equipment; (vii) commencement of proceedings under any bankruptcy, arrangement, reorganization or insolvency law by or against, or appointment of a receiver or liquidator for any property of, Lessee or any guarantor; (viii) any failure by Lessee or any direct or indirect subsidiary or affiliate of Lessee, or any direct or indirect owner or party controlling, directly or indirectly, Lessee or any direct or indirect subsidiary or affiliate of Lessee, to perform any obligation under any agreement between Lessee or any such subsidiary; affiliate, owner or controlling party on the one hand, and Lessor, any Lessor Transferee, or any direct or indirect subsidiary or affiliate of Lessor or any Lessor Transferee, on the other hand, which agreement shall include, without limitation, any master lease, any equipment schedule, any promissory note or other debt obligation of Lessee to Lessor; or (ix) assignment for the benefit of creditors or bulk transfer of assets by, or insolvency, cessation of business, termination of existence, death or dissolution of Lessee or any guarantor. As used in this Master Lease, the term "guarantor" shall include an guarantor of this Master Lease or any Equipment Schedule, and any owner of any property given as security for Lessee's obligations hereunder or thereunder.

(b) Upon the occurrence of any one or more Events of Default, Lessor may exercise any one or more of the following remedies without demand or notice to Lessee and without terminating or otherwise affecting Lessee's obligations hereunder: (i) declare the entire balance of rent for the remaining term of this Lease to be immediately due and payable; (ii) require Lessee to assemble the Equipment and make it available to Lessor at a place designated by Lessor; (iii) take and hold possession of the Equipment and render the Equipment unusable, and for this purpose enter and remove the Equipment from any premises where the same may be located without liability to Lessor for any damage caused thereby; (iv) sell or lease the Equipment or any part thereof at public private sale for cash, on credit or otherwise, with or without representations or warranties, and upon such terms as shall be acceptable to Lessor; (v) use and occupy the premises of Lessee for the purpose of taking, holding, reconditioning, displaying, selling or leasing the Equipment, without cost to Lessor or liability to Lessor; (vi) demand, sue for and recover from Lessee the sum of (A) all rent and other amounts due hereunder, plus, as liquidated damages for loss of a bargain and not as a penalty, and in lieu of any further payments of rent for the Equipment, an amount equal to Lessor's Return for such Equipment ("Lessor's Return" shall mean if the applicable Equipment Schedule provides for Stipulated Loss Values, the applicable Stipulated Loss Value, and, otherwise, the present value, discounted

at five percent (5%), of all unpaid rent payments to become due during the remaining lease term; (B) all late charges provided in this Master Lease or any Equipment Schedule; (C) all expenses, including attorney's fees, of Lessor or any Lessor Transferee incurred in enforcing any of their rights under this Master Lease or any Equipment Schedule, including the taking, holding, reconditioning, preparing for sale or lease, and selling or leasing of the Equipment; (D) all other expenses, including attorney's fees, incurred by Lessor or any Lessor Transferee incurred in enforcing any of their rights under this Master Lease or any Equipment Schedule and including any and all damages to real property arising from the removal of any of the Equipment, and in the event any party holding an interest in any real property upon which any of the Equipment is located shall demand a security deposit in connection with any such removal, Lessee shall deliver and provide such deposit; (E) any actual or anticipated loss in tax benefits to Lessor (as determined by Lessor) resulting from the default or Lessor's repossession or disposition of the Equipment; and (F) any other amounts payable by Lessee to Lessor under this Master Lease or any Equipment Schedule or damages suffered by Lessor not otherwise compensated herein including, without limitation, damages arising from Lessee's failure to maintain the Equipment as provided herein. Any sale or lease of the Equipment by Lessor after default shall be free and clear of any interest of Lessee.

(c) The rights and remedies of Lessor hereunder are in addition to all other rights and remedies provided by law. All of Lessor's rights and remedies are cumulative and not exclusive, and may be exercised separately or concurrently and in such order and manner as Lessor may determine. The exercise of any one remedy shall not be deemed to be an election of such remedy or to preclude the exercise of any other remedy. No default by Lessee or action by Lessor shall result in a termination of this Master Lease or any Equipment Schedule unless Lessor so notifies Lessee in writing, and no termination of this Master Lease or any Equipment Schedule shall release or impair any of Lessee's obligations hereunder or thereunder.

16. PURCHASE OPTION

Notwithstanding anything to the contrary in the Master Lease and Equipment Schedule, Lessor and Lessee hereby agree, provided no default has occurred and is continuing under the Master Lease, at the end of the Equipment Schedule term, Lessor will sell all, but not part of, the Equipment listed on the Equipment Schedule AS IS WHERE IS and transfer title to Lessee for the consideration of One Hundred and One Dollar (101.00) and will execute such documentation as necessary to effect such transfer of title to the extent title was conveyed to Lessor. Any instrument of transfer shall contain the following: THE EQUIPMENT TRANSFERRED HEREBY IS TRANSFERRED "AS IS" AND "WHERE IS". THE SELLER MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS OF ANY KIND WHATSOEVER IN REGARD TO SUCH EQUIPMENT. THE SELLER HEREBY DISCLAIMS ANY AND ALL REPRESENTATIONS AND WARRANTIES IN REGARD TO SUCH EQUIPMENT, INCLUDING, WITHOUT LIMITATION, THOSE OF MERCHANTABILITY OR FITNESS FOR USE OR FITNESS FOR ANY PARTICULAR USE, OR OF QUALIFY, DESIGN, CONDITION, CAPACITY, SUITABILITY OR PERFORMANCE.

17. COST AND EXPENSES

Lessee shall pay to Lessor, on demand, all costs and expenses incurred by Lessor in connection with the execution, delivery, administration and enforcement of this Master Lease, any Equipment Schedule, the transactions contemplated hereby and thereby, and any costs and expenses related hereto or thereto, including without limitation filing fees, registration fees, attorney's fees and other out-of-pocket expenses.

18. PERFORMANCE BY LESSOR

If Lessee shall fail to perform any obligations under this Master Lease or any Equipment Schedule, Lessor shall have the right, but shall not be obligated, with or without prior notice to Lessee, to perform the same (or, in the case of Lessee's failure to maintain insurance, Lessor may obtain insurance protecting the interest of Lessor only), and the costs thereof, together with interest at the lesser of eighteen percent (18%) per year or the highest lawful rate, shall be immediately payable by Lessee as additional rent for the Equipment.

19. FURTHER ASSURANCES

Lessee shall, at its sole cost and expense, execute and deliver such financial statements, certificates of title and other related documents and take such action as Lessor or any Lessor Transferee may from time to time request for the purpose of continuing and assuring the rights intended to be created by this Lease or any Equipment Schedule, including without limitation, any redocumentation of errors and omissions of this Master Lease and any Equipment Schedule required by any Lessor Transferee or other successor to any interest of Lessor.

20. NOTICES

All notices, demands, requests and other communications under this Master Lease and any Equipment Schedule: (a) shall be in writing; (b) shall be delivered personally or by first class mail addressed to the party at its respective address set forth herein or such other address as such party may designate from time to time in writing; and (c) shall be effective when personally delivered or deposited in the United States mail, duly addressed with postage prepaid.

21. LAW GOVERNING - JURISDICTION, WAIVER OF JURY TRIAL. LESSEE WARRANTS, REPRESENTS AND AGREES THAT: (a) THIS MASTER LEASE AND ANY EQUIPMENT SCHEDULE HAVE BEEN MADE AND ENTERED INTO AS PENNSYLVANIA TRANSACTIONS; (b) THE MASTER LEASE AND ANY EQUIPMENT SCHEDULE SHALL

BE CONSTRUED, INTERPRETED, GOVERNED AND ENFORCED UNDER AND IN ACCORDANCE WITH THE SUBSTANTIVE LAWS (WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS) OF PENNSYLVANIA; (c) JURISDICTION TO HEAR AND DECIDE ANY CASE OR CONTROVERSY ARISING OUT OF, OR TO ENFORCE OR CONSTRUE, THIS MASTER LEASE OR ANY EQUIPMENT SCHEDULE, SHALL EXCLUSIVELY RESIDE AND VEST IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA, OR IN THE COURTS OF THE COMMONWEALTH OF PENNSYLVANIA SITTING IN BUCKS COUNTY; AND (d) THIS SECTION 21 MAY BE ENFORCED BY INJUNCTION, SPECIFIC PERFORMANCE OR ANY OTHER EXTRAORDINARY OR EQUITABLE REMEDY. LESSOR AND LESSEE HEREBY WAIVE THE RIGHT TO TRAIL BY JURY OR ANY MATTERS ARISING OUT OF THIS LEASE OR THE CONDUCT OF THE RELATIONSHIP BETWEEN LESSOR AND LESSEE.

22. MISCELLANEOUS.

This Master Lease, any Equipment Schedule, and any other documents executed herewith or therewith constitute the entire agreement with respect to the subject matter hereof. No oral agreement, representation or warranty shall be binding. Any provision of this Master Lease which is invalid or unenforceable under applicable law shall not affect the remaining provisions hereof, and to this end the provisions hereof are declared to be serverable. Section headings are for convenience of reference only, and shall not affect the interpretation hereof. If more than one Lessee is named herein, the liability of each shall be joint and several. Where appropriate and the context permits, the singular shall include the plural and vice versa. Upon assignment of this Master Lease or any Equipment Schedule or Equipment (or any part hereof or thereof or any interest herein or therein) by Lessor, the term "Lessor" shall include the Assignee. Lessee waives notice and acceptance of this Master Lease and any Equipment Schedule by Lessor. Time is of the essence of this Master Lease and any Equipment Schedule.

23. WAIVER AND AMENDMENT

No waiver or amendment of this Master Lease or any Equipment Schedule, or any provision hereof or thereof, shall be effective unless in writing signed by Lessor. No delay or failure to exercise any right, power or remedy accruing to Lessor upon any default of Lessee shall impair any such right, power and remedy, nor shall it be construed as a waiver of any such default, or an acquiescence therein, or in any similar default thereafter occurring, nor shall any waiver of any single default be deemed a waiver of any other default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of Lessor must be in writing and shall be effectively only to the extent specifically set forth therein.

LESSEE INITIAL /s/ illegible

THIS MASTER LEASE, AND ANY EQUIPMENT SCHEDULE, ARE SUBJECT TO THE TERMS AND CONDITIONS SET FORTH HEREIN.

LESSEE ACKNOWLEDGES RECEIPT OF A COPY OF THIS MASTER LEASE

THIS MASTER LEASE, AND ANY EQUIPMENT SCHEDULE, SHALL BECOME EFFECTIVE ONLY UPON WRITTEN ACCEPTANCE BY LESSOR.

LESSOR:	LESSEE:
DVI FINANCIAL SERVICES INC.	DIGIRAD IMAGING SOLUTIONS, INC.
By: /s/ Mark J. Gallagher	By: /s/ Gary Atkinson
Name: Mark J. Gallagher	Name: Gary Atkinson
Title: Director of Credit	Title: CFO

NO SECURITY INTEREST IN AN EQUIPMENT SCHEDULE MAY BE CREATED THROUGH THE TRANSFER OR POSSESSION OF ANY COUNTERPART OF THE ORIGINAL EQUIPMENT SCHEDULE OTHER THAN THE EQUIPMENT SCHEDULE MARKED "SECURITY PARTY'S ORIGINAL" AND A CERTIFIED COPY OF THE MASTER AGREEMENT.

DVI: Mastlse.csa (11/99)

THIS CONTRACT (AND EQUIPMENT SCHEDULE AND MASTER LEASE THE TERMS OF WHICH IT INCORPORATES) HAS BEEN ASSIGNED TO, IS SUBJECT TO THE SECURITY INTEREST OF AND IS HELD IN TRUST FOR THE BENEFIT OF FLEET BANK N.A., AS AGENT, PURSUANT TO THE TERMS AND CONDITIONS OF A SECURITY AGREEMENT DATED JUNE 14, 1991 AND RELATED DOCUMENTS, AS AMENDED FROM TIME TO TIME.

CERTIFIED TO BE A TRUE AND CORRECT
DOCUMENT AS SUBMITTED TO
DVI FINANCIAL SERVICES, INC.
BY: /s/ illegible
DATE: 6/25/01

Fully Executed Copy

EQUIPMENT SCHEDULE NO. 001
TO
MASTER EQUIPMENT LEASE NO. 2982
("MASTER LEASE")

LESSOR: DVI Financial Services Inc.

LESSEE: Digirad Imaging Solutions, Inc.

DATE OF MASTER LEASE: May 24, 2001

DATE OF EQUIPMENT SCHEDULE: May 24, 2001

LEASE TERM: 60 Months

COMMENCEMENT DATE:

RENT COMMENCEMENT DATE:

MONTHLY RENT: $6,965.02

IN THE EVENT THERE IS AN INCREASE IN THE THIRTY-ONE (31) MONTH TREASURY NOTE RATE FROM THE RATE QUOTED IN THE PROPOSAL/COMMITMENT LETTER TO THE RATE IN EFFECT ON THE DATE THE SCHEDULE FUNDS, THEN LESSOR RESERVES THE RIGHT TO ADJUST THE MONTHLY RENT SET FORTH IN THE SCHEDULE BY INCREASING THE MONTHLY RENT BY THAT SAME RATE OF INCREASE.

SALES/USE TAX: Sales tax to be paid on the stream

ADVANCE PAYMENTS: N/A

EQUIPMENT:
REFER TO THE ATTACHED EXHIBIT "A" WHICH BY THIS REFERENCE IS MADE A PART HEROF, TOGETHER WITH ALL PARTS, ACCESSORIES, ATTACHMENTS, ACCESSIONS, ADDITIONS, REPLACEMENTS, AND SUBSTITUTIONS THERETO AND THEREFOR.

EQUIPMENT LOCATION: Mobile Unit services contract in Florida

MASTER LEASE:
This Equipment Schedule is issued pursuant to the Master Lease. All of terms, conditions representations and warranties of the Master Lease are hereby incorporated by reference herein and made a part hereof as if they were expressly set forth in this Equipment Schedule and this Equipment Schedule constitutes a separate lease with respect to the Equipment described herein. The parties hereby reaffirm all of the terms, conditions, representations and warranties of the Master Lease except as modified herein, by their execution and delivery of this Equipment Schedule.

DVI FINANCIAL SERVICES INC.	DIGIRAD IMAGING SOLUTIONS, INC.
(Lessor)	(Lessee)
By: /s/ Mark Gallgher	By: /s/ Gary Atkinson
Title: Director of Credit	Title: CFO
Mark J. Gallagher	Gary Atkinson
(Print Name)	(Print Name)

THIS CONTRACT (AND EQUIPMENT SCHEDULE AND MASTER LEASE THE TERMS OF WHICH IT INCORPORATES) HAS BEEN ASSIGNED TO, IS SUBJECT TO THE SECURITY INTEREST OF AND IS HELD IN TRUST FOR THE BENEFIT OF FLEET BANK N.A., AS AGENT, PURSUANT TO THE TERMS AND CONDITIONS OF A SECURITY AGREEMENT DATED JUNE 14, 1991 AND RELATED DOCUMENTS, AS AMENDED FROM TIME
TO TIME. SECURED PARTY'S ORIGINAL

EXHIBIT "A"

EQUIPMENT:
One (1) Mobile Nuclear System, one (1) Ford E250 Van, vin # 1FTNS24LOYHBS6424, one (1) Digirad 2020tc Gamma Camera, SN100, one (1) Digirad SPECTour Chair, SN116 and one (1) Van Modification Ability Center.

CONTRACT RIGHTS:
Mobile Imaging Service Agreement by and between Orion Imaging Systems, Inc. ("Orion") and Dr. Blanca Luna dated February 22, 2001.

Fully Executed Copy

EQUIPMENT SCHEDULE NO. 002
TO
MASTER EQUIPMENT LEASE NO. 2982
("MASTER LEASE")

LESSOR: DVI Financial Services Inc.

LESSEE: Digirad Imaging Solutions, Inc.

DATE OF MASTER LEASE: May 24, 2001

DATE OF EQUIPMENT SCHEDULE: May 30, 2001

LEASE TERM: 60 Months

COMMENCEMENT DATE:

RENT COMMENCEMENT DATE:

MONTHLY RENT: $6,965.02

IN THE EVENT THERE IS AN INCREASE IN THE THIRTY-ONE (31) MONTH TREASURY NOTE RATE FROM THE RATE QUOTED IN THE PROPOSAL/COMMITMENT LETTER TO THE RATE IN EFFECT ON THE DATE THE SCHEDULE FUNDS, THEN LESSOR RESERVES THE RIGHT TO ADJUST THE MONTHLY RENT SET FORTH IN THE SCHEDULE BY INCREASING THE MONTHLY RENT BY THAT SAME RATE OF INCREASE.

SALES/USE TAX: Sales tax to be paid on the stream

ADVANCE PAYMENTS: N/A

EQUIPMENT:
REFER TO THE ATTACHED EXHIBIT "A" WHICH BY THIS REFERENCE IS MADE A PART HEROF, TOGETHER WITH ALL PARTS, ACCESSORIES, ATTACHMENTS, ACCESSIONS, ADDITIONS, REPLACEMENTS, AND SUBSTITUTIONS THERETO AND THEREFOR.

EQUIPMENT LOCATION: Mobile Unit services contract in New Jersey

MASTER LEASE:
This Equipment Schedule is issued pursuant to the Master Lease. All of terms, conditions representations and warranties of the Master Lease are hereby incorporated by reference herein and made a part hereof as if they were expressly set forth in this Equipment Schedule and this Equipment Schedule constitutes a separate lease with respect to the Equipment described herein. The parties hereby reaffirm all of the terms, conditions, representations and warranties of the Master Lease except as modified herein, by their execution and delivery of this Equipment Schedule.

DVI FINANCIAL SERVICES INC.	DIGIRAD IMAGING SOLUTIONS, INC.
(Lessor)	(Lessee)
By: /s/ Mark Gallgher	By: /s/ Gary Atkinson
Title: Director of Credit	Title: CFO
Mark J. Gallagher	Gary Atkinson
(Print Name)	(Print Name)

THIS CONTRACT (AND EQUIPMENT SCHEDULE AND MASTER LEASE THE TERMS OF WHICH IT INCORPORATES) HAS BEEN ASSIGNED TO, IS SUBJECT TO THE SECURITY INTEREST OF AND IS HELD IN TRUST FOR THE BENEFIT OF FLEET BANK N.A., AS AGENT, PURSUANT TO THE TERMS AND CONDITIONS OF A SECURITY AGREEMENT DATED JUNE 14, 1991 AND RELATED DOCUMENTS, AS AMENDED FROM TIME TO TIME.

SECURED PARTY'S ORIGINAL

EXHIBIT "A"

EQUIPMENT:
One (1) Mobile Nuclear System, one (1) Ford E250 Van, vin # 1FTNS24L1YHB77928, one (1) Digirad 2020tc Gamma Camera, SN88, one (1) Digirad SPECTour Chair, SN118 and one (1) Van Modification Ability Center.

EQUIPMENT SCHEDULE NO. 003
TO
MASTER EQUIPMENT LEASE NO. 2982
("MASTER LEASE")

LESSOR: DVI Financial Services Inc.

LESSEE: Digirad Imaging Solutions, Inc.

DATE OF MASTER LEASE: May 24, 2001

DATE OF EQUIPMENT SCHEDULE: June 12, 2001

LEASE TERM: 60 Months

COMMENCEMENT DATE:

RENT COMMENCEMENT DATE:

MONTHLY RENT: $7,010.66

IN THE EVENT THERE IS AN INCREASE IN THE THIRTY-ONE (31) MONTH TREASURY NOTE RATE FROM THE RATE QUOTED IN THE PROPOSAL/COMMITMENT LETTER TO THE RATE IN EFFECT ON THE DATE THE SCHEDULE FUNDS, THEN LESSOR RESERVES THE RIGHT TO ADJUST THE MONTHLY RENT SET FORTH IN THE SCHEDULE BY INCREASING THE MONTHLY RENT BY THAT SAME RATE OF INCREASE.

SALES/USE TAX: Sales tax to be paid on the stream

ADVANCE PAYMENTS: N/A

EQUIPMENT:
REFER TO THE ATTACHED EXHIBIT "A" WHICH BY THIS REFERENCE IS MADE A PART HEROF, TOGETHER WITH ALL PARTS, ACCESSORIES, ATTACHMENTS, ACCESSIONS, ADDITIONS, REPLACEMENTS, AND SUBSTITUTIONS THERETO AND THEREFOR.

EQUIPMENT LOCATION: Mobile Unit services contracts in Florida

MASTER LEASE:
This Equipment Schedule is issued pursuant to the Master Lease. All of terms, conditions representations and warranties of the Master Lease are hereby incorporated by reference herein and made a part hereof as if they were expressly set forth in this Equipment Schedule and this Equipment Schedule constitutes a separate lease with respect to the Equipment described herein. The parties hereby reaffirm all of the terms, conditions, representations and warranties of the Master Lease except as modified herein, by their execution and delivery of this Equipment Schedule.

DVI FINANCIAL SERVICES INC.	DIGIRAD IMAGING SOLUTIONS, INC.
(Lessor)	(Lessee)
By: /s/ Mark Gallgher	By: /s/ Gary Atkinson
Title: Director of Credit	Title: CFO
Mark J. Gallagher	Gary Atkinson
(Print Name)	(Print Name)

THIS CONTRACT (AND EQUIPMENT SCHEDULE AND MASTER LEASE THE TERMS OF WHICH IT INCORPORATES) HAS BEEN ASSIGNED TO, IS SUBJECT TO THE SECURITY INTEREST OF AND IS HELD IN TRUST FOR THE BENEFIT OF FLEET BANK N.A., AS AGENT, PURSUANT TO THE TERMS AND CONDITIONS OF A SECURITY AGREEMENT DATED JUNE 14, 1991 AND RELATED DOCUMENTS, AS AMENDED FROM TIME
TO TIME. SECURED PARTY'S ORIGINAL

EXHIBIT "A"

EQUIPMENT:
One (1) Mobile Nuclear System, one (1) Ford E250 Van, vin # 1FTNS24LX1HA58281, one (1) Digirad 2020tc Gamma Camera, SN129, one (1) Digirad SPECTour Chair, SN103 and one (1) Van Modification Ability Center.

RIDER TO MASTER EQUIPMENT LEASE NO. 2982

THIS RIDER (the "Rider") dated effective as of May 24, 2001 is entered into by and between DVI FINANCIAL SERVICES INC. ("LESSOR") and DIGIRAD IMAGING SOLUTIONS, INC. ("LESSEE").

BACKGROUND

A. Lessor and Lessee have entered into that certain Master Equipment Lease No. 2982 dated May 24,2001 (the "LEASE"), certain Equipment Schedules attached thereto and other related documents, instruments and agreements (collectively, the "LEASE DOCUMENTS")

B. At Lessee's request, Lessor has agreed to modify the Lease Documents in accordance with the terms and conditions hereof.

NOW, THEREFORE, FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. AMENDMENTS. The Lease shall be and is hereby amended as follows:

a) SECTION 8 (ii) is hereby deleted.

b) SECTION 10 the third sentence is hereby deleted.

c) SECTION 15(b)(iv) is hereby amended and restated as follows "sell or Lease the Equipment or any part thereof at public or private sale for cash, on credit or otherwise, with or without representations or warranties, and upon such commercially reasonable terms as shall be acceptable to Lessor;"

d) SECTION 15(b)(vi)(a) is hereby amended and restated as follows "all rent and other amounts due hereunder, plus, as liquidated damages for loss of a bargain and not as a penalty, and in lieu of any further payments of rent for the Equipment, an amount equal to Lessor's Return for such Equipment ("Lessor's Return" shall mean if the applicable Equipment Schedule provides for Stipulated Loss Values, the applicable Stipulated Loss Value, and, otherwise, the present value, discounted at six and a half percent (6.5%), of all unpaid rent payments to become due during the remaining lease term;"

e) SECTION 15(b)(vi)(e) is hereby amended and restated as follows "any actual or anticipated loss in tax benefits to Lessor (as reasonably determined by Lessor) resulting from the default or Lessor's repossession or disposition of the equipment:"

f) SECTION 16 is hereby amended and restated as follows "at the end of the Equipment Schedule term, Lessor will sell all, but not part of, the Equipment listed on an Equipment Schedule,"

2. EFFECT OF RIDER. All terms and conditions of the Lease not expressly modified hereby shall remain in full force and effect and are hereby ratified and confirmed by the parties hereto.

3. INCONSISTENCIES. To the extent of any inconsistencies between the terms of this Rider and the Lease, the terms of this Rider shall prevail.

4. GOVERNING LAW. This Rider shall be governed by the laws of the Commonwealth of Pennsylvania (without giving effect to any principles of conflicts of law).

IN WITNESS WHEREOF, the parties hereto have executed this Rider effective as of the date first above written.

DVI FINANCIAL SERVICES INC. SOLUTIONS, INC.	DIGIRAD IMAGING
(Lessor)	(Lessee)
By: /s/ Mark Gallgher	By: /s/ Gary Atkinson
Name: Mark J. Gallagher	Name: Gary Atkinson
Title: Director of Credit	Title: CFO

THIS CONTRACT (AND EQUIPMENT SCHEDULE AND MASTER LEASE THE TERMS OF WHICH IT INCORPORATES) HAS BEEN ASSIGNED TO, IS SUBJECT TO THE SECURITY INTEREST OF AND IS HELD IN TRUST FOR THE BENEFIT OF FLEET BANK N.A., AS AGENT, PURSUANT TO THE TERMS AND CONDITIONS OF A SECURITY AGREEMENT DATED JUNE 14, 1991 AND RELATED DOCUMENTS, AS AMENDED FROM TIME TO TIME.

CERTIFIED TO BE A TRUE AND CORRECT
DOCUMENT AS SUBMITTED TO

DVI FINANCIAL SERVICES, INC.
BY: /s/ illegible

DATE: 6/25/01

EXHIBIT 10.31

LOAN AGREEMENT

SEPT. 1, 1993

SAN DIEGO, CALIFORNIA

PREAMBLE: This Note is a consolidation of all amounts loaned by GERALD G. LOEHR TRUST ("Holder") to Aurora Technologies Corporation ("Aurora"), a California Corporation. This Note cancels all loans made by GERALD G. LOEHR TRUST prior to this date and all loan guarantees prior to this date by any and all Aurora directors to other Aurora directors.

Aurora promises to pay to the GERALD G. LOEHR TRUST a resident of RANCHO SANTA FE, CA 92067 ("Holder") at P.O. BOX 675207 the principal sum of ONE-HUNDRED-NINETY THOUSAND DOLLARS ($190,000.00), with interest on such principal sum from the date of this Note, as more fully set forth below.

1. PAYMENTS. Principal and interest under this Note shall be paid as follows.

1.1. Commencing on the first day of the month following the date of executing this agreement and continuing until February 1, 1996, interest only shall be paid at the rate of eight percent (8%) per annum. Thereafter principal and interest at the rate of 1.5% above the interest rate of a thirty-year U.S. treasury note maturing February 1, 2026, shall be paid in such equal monthly payments that the entire indebtedness shall be paid off on February 1, 2001.

Any or all of this Note may be prepaid without penalty. Any prepayments shall first be applied to unpaid interest and then to principal. Aurora agrees not to prepay any amount on this Note unless equal amounts are paid on the other two similar loan agreements of this same date between Aurora and JACK F. BUTLER and CLINTON L. LINGREN.

2. MANNER OF PAYMENTS. All payments by Aurora under this Note shall be made in lawful money of the United States of America without set-off, deduction or counterclaim of any kind whatsoever.

3. COMMERCIAL PURPOSES. Aurora acknowledges that the loan evidenced by this Note is obtained for business or commercial purposes and that the proceeds of such loan will not be used primarily for personal, family, household or agricultural purposes.

4. NOTE WAIVERS. Aurora waives presentment, demand, protest, notice of demand and dishonor.

5. GOVERNING LAW. This Note shall be governed by and construed in accordance with the laws of the State of California.

6. VENUE AND JURISDICTION. For purposes of venue and jurisdiction, this Note shall be deemed made and to be performed in San Diego, California.

7. TIME OF ESSENCE. Time and strict and punctual performance are of the essence with respect to each provision of this Note.

8. ATTORNEY'S FEES. The prevailing party to this Note shall be entitled to recover from the unsuccessful party to this Note all costs, expenses, and actual attorney's fees relating to or arising from the enforcement or interpretation of, or any litigation, arbitration or mediation relating to or arising from, this Note.

9. MODIFICATION. This Note may be modified only by a contract in writing executed by the party to this Note against whom enforcement of such modification is sought.

10. HEADINGS. The headings of the Paragraphs of this Note have been included only for convenience, and shall not be deemed in any manner to modify or limit any of the provisions of this Note, or be used in any manner in the interpretation of this Note.

11. PRIOR UNDERSTANDINGS. This Note contains the entire agreement between the parties to this Note with respect to the subject matter of this Note, is intended as a final expression of such parties' agreement with respect to such terms as are included in this Note, is intended as a complete and exclusive statement of the terms of such agreement, and supersedes all negotiations, stipulations, understandings, agreements, representations and warranties, if any, with respect to such subject matter, which precede or accompany the execution of this Note.

12. INTERPRETATION. Whenever the context so requires in this Note, all words used in the singular shall be construed to have been used in the plural

(and vice versa), each gender shall be construed to include any other genders, and the word "person" shall be construed to include a natural person, a corporation, a firm, a partnership, a joint venture, a trust, an estate or any other entity.

13. PARTIAL INVALIDITY. Each provision of this Note shall be valid and enforceable to the fullest extent permitted by law. If any provision of this Note or the application of such provision to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Note, or the application of such provision to person or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected by such invalidity or unenforceability, unless such provision or such application of such provision is essential to this Note.

14. SUCCESSORS-IN-INTEREST AND ASSIGNS. This Note shall be binding upon and shall inure to the benefit of the successors-in-interest and assigns of each party to this Note. Nothing in this Paragraph shall create any rights enforceable by any person not a party to this Note, except for the rights of the successors-in-interest and assigns of each party to this Note, unless such rights are expressly granted in this Note to other specifically identified persons.

15. WAIVER. Any waiver of a default under this Note must be in writing and shall not be a waiver of any other default concerning the same or any other provision of this Note. No delay or omission in the exercise of any right or remedy shall impair such right or remedy or be

construed as a waiver. A consent to or approval of any act shall not be deemed to waive or render unnecessary consent to or approval of any other or subsequent act.

GERALD G. LOEHR TRUST

By: /s/ Gerald G. Loehr Trustee
Gerald G. Loehr

AURORA TECHNOLOGIES CORPORATION
A California corporation

By: /s/ Jack F. Butler 9/1/93
Jack F. Butler, President

By: /s/ Clinton L. Lingren 9-1-93
Clinton L. Lingren, Secretary

AMENDMENT TO LOAN AGREEMENT

THIS AMENDMENT TO LOAN AGREEMENT (the "Amendment") dated as of May 13, 1994 amends the Loan Agreement dated as of September 1, 1993 by and between AURORA TECHNOLOGIES CORPORATION, a California corporation, with principal offices at 7408 Trade Street, San Diego, California 92121-2410 (the "Company"), and GERALD G. LOEHR, ("Lender"), as amended by the Addendum to Loan Agreement dated as of January 1, 1994, February 17, 1994 and April 14, 1994 (collectively, the "Original Agreement").

WHEREAS, Lender together with JACK F. BUTLER, and CLINTON L. LINGREN, collectively (the "Founders"), have individually entered into loan agreements with the Company which provide for the Company to repay to the Founders principal totaling $735,000 and interest thereon;

WHEREAS, the Company and Kingsbury Capital Partners, L.P. ("Kingsbury") have entered into a Stock Purchase Agreement dated as of May 13, 1994, whereby Kingsbury will provide additional financing to the Company in exchange for Series A Preferred Stock of the Company, pursuant to which the Company has agreed to enter into this Amendment with Lender to amend the terms of the Original Agreement by the terms set forth below;

NOW, THEREFORE, in consideration of the promises and of the mutual provisions and obligations hereinafter set forth, the parties hereto agree as follows:

1. PAYMENTS. Principal and interest under this Amendment shall be paid as follows.

1.1 Interest shall be paid quarterly. The simple rate of interest shall be six and thirty-five hundredths percent (6.35%) per annum. Notwithstanding any provision of this Amendment, it is the intent and agreement of the parties that in the event any interest specified herein is found to violate any applicable law or regulation, this Amendment shall be construed or deemed amended so that the interest is adjusted to the extent necessary to

comply with such applicable law or regulation.

1.2 Payment of principal shall not become due until the later of (i) March 31, 1999 or (ii) March 31 of the year immediately following the first year in which the Company's cash provided by operations is greater than zero as shown on the Company's audited statement of cash flows for such year. Subject to certain exceptions to payment provided herein, the principal shall be paid to Lender in twelve (12) equal quarterly installments, the first such payment to be made within forty-five (45) days of the initial due date and subsequent quarterly installments to be paid within forty-five (45) days of the end of each subsequent quarter. The Company shall make payment of quarterly installments to Lender in equal proportion to the amounts paid to the other Founders, and shall not make payment of any portion of Lender's principal before similar payment to other Founders. Notwithstanding anything to the contrary herein, the aggregate amount of the quarterly installments to principal paid to Lender and the other Founders shall not exceed fifty percent (50%) of the Company's cash provided by operations as shown on the Company's unaudited statement of cash flows for the prior quarter, in

which event, any unpaid amounts of principal shall be carried forward and subsequent quarterly installments shall be adjusted accordingly to account for the principal carried forward.

2. Except as set forth herein, there have been no other amendments to the Original Agreement and all terms and conditions thereof shall remain in full force and effect.

3. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4. No waiver or modification of the terms of this Amendment shall be valid unless in writing, signed by both parties to this Amendment.

5. This Amendment shall be governed by and construed in accordance with the laws of the State of California, irrespective of its choice of law provisions.

IN WITNESS WHEREOF, the parties have caused this Amendment to be signed in duplicate by their duly authorized representatives. Entered into as of the day and year first above written.

AURORA TECHNOLOGIES CORPORATION

By /s/ Jack Butler

Title President

Gerald G. Loehr

By /s/ Gerald Loehr, Trustee

Title

AURORA TECHNOLOGIES CORPORATION

7408 TRADE STREET - SAN DIEGO, CA 92121-2410
(619) 549-4545 - FAX (619) 549-7714

ADDENDUM TO LOAN AGREEMENT

This ADDENDUM amends the Agreement between GERALD G. LOEHR and Aurora Technologies Corporation ("Aurora") dated September 1, 1993 ("Original Agreement") to allow additional amounts to be loaned to Aurora from time to time, with the principal sum being increased accordingly. The rates of interest and all terms and conditions contained in the Original Agreement will apply to the loans and new principal amounts.

Loans will be considered valid and new principal amounts established when properly recorded and accepted by the named Aurora officials below.

>

1.	1/1/94	$20,000.00	$210,000.00

	Date	Amount Loaned	New Principal Balance
	Loaned by:	Accepted for Aurora Technologies Corporation by:	
	/s/ Gerald Loehr	/s/ Jack F. Butler	/s/ Clinton L. Lingren
		Jack F. Butler President	Clinton L. Lingren Secretary
2.	2/17/94	$25,000.00	$235,000.00
	Date	Amount Loaned	New Principal Balance
	Loaned by:	Accepted for Aurora Technologies Corporation by:	
	/s/ Gerald Loehr	/s/ Jack F. Butler	/s/ Clinton L. Lingren
		Jack F. Butler President	Clinton L. Lingren Secretary
3.	4/14/94	$10,000.00	$245,000.00
	Date	Amount Loaned	New Principal Balance
	Loaned by:	Accepted for Aurora Technologies Corporation by:	
	/s/ Gerald Loehr	/s/ Jack F. Butler	/s/ Clinton L. Lingren
		Jack F. Butler President	Clinton L. Lingren Secretary

EXHIBIT 10.32

SEPT. 1, 1993

LOAN AGREEMENT

SAN DIEGO, CALIFORNIA

PREAMBLE: This Note is a consolidation of all amounts loaned by CLINTON L. LINGREN ("Holder") to Aurora Technologies Corporation ("Aurora"), a California Corporation. This Note cancels all loans made by CLINTON L. LINGREN prior to this date and all loan guarantees prior to this date by any and all Aurora directors to other Aurora directors.

Aurora promises to pay to CLINTON L. LINGREN a resident of SAN DIEGO, CA ("Holder") at 6211 HANNON CT. 92117 the principal sum of ONE-HUNDRED-NINETY THOUSAND DOLLARS ($190,000.00), with Interest on such principal sum from the date of this Note, as more fully set forth below.

1. PAYMENTS. Principal and interest under this Note shall be paid as follows.

1.1. Commencing on the first day of the month following the date of executing this agreement and continuing until February 1, 1996, interest only shall be paid at the rate of eight percent (8%) per annum. Thereafter principal and interest at the rate of 1.5% above the interest rate of a thirty-year U.S. treasury note maturing February 1, 2026, shall be paid in such equal monthly payments that the entire indebtedness shall be paid off on February 1, 2001.

Any or all of this Note may be prepaid without penalty. Any prepayments shall first be applied to unpaid interest and then to principal. Aurora agrees not to prepay any amount on this Note unless equal amounts are paid on the other two similar loan agreements of this same date between Aurora and JACK F. BUTLER and GERALD G. LOEHR TRUST.

2. MANNER OF PAYMENTS. All payments by Aurora under this Note shall be made in lawful money of the United States of America without set-off, deduction or counterclaim of any kind whatsoever.

3. COMMERCIAL PURPOSES. Aurora acknowledges that the loan evidenced by this Note is obtained for business or commercial purposes and that the proceeds of such loan will not be used primarily for personal, family, household or agricultural purposes.

4. NOTE WAIVERS. Aurora waives presentment, demand, protest, notice of demand and dishonor.

5. GOVERNING LAW. This Note shall be governed by and construed in accordance with the laws of the State of California.

6. VENUE AND JURISDICTION. For purposes of venue and jurisdiction, this Note shall be deemed made and to be performed in San Diego, California.

7. TIME OF ESSENCE. Time and strict and punctual performance are of the essence with respect to each provision of this Note.

8. ATTORNEY'S FEES. The prevailing party to this Note shall be entitled to recover from the unsuccessful party to this Note all costs, expenses, and actual attorney's fees relating to or arising from the enforcement or interpretation of, or any litigation, arbitration or mediation relating to or arising from, this Note.

9. MODIFICATION. This Note may be modified only by a contract in writing executed by the party to this Note against whom enforcement of such modification is sought.

10. HEADINGS. The headings of the Paragraphs of this Note have been included only for convenience, and shall not be deemed in any manner to modify or limit any of the provisions of this Note, or be used in any manner in the Interpretation of this Note.

11. PRIOR UNDERSTANDINGS. This Note contains the entire agreement between the parties to this Note with respect to the subject matter of this Note, is intended as a final expression of such parties' agreement with respect to such terms as are included in this Note, is intended as a complete and exclusive statement of the terms of such agreement, and supersedes all negotiations, stipulations, understandings, agreements, representations and warranties, if any, with respect to such subject matter, which precede or accompany the execution of this Note.

12. INTERPRETATION. Whenever the context so requires in this Note, all

words used in the singular shall be construed to have been used in the plural (and vice versa), each gender shall be construed to include any other genders, and the word "person" shall be construed to include a natural person, a corporation, a firm, a partnership, a joint venture, a trust, an estate or any other entity.

13. PARTIAL INVALIDITY. Each provision of this Note shall be valid and enforceable to the fullest extent permitted by law. If any provision of this Note or the application of such provision to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Note, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected by such invalidity or unenforceability, unless such provision or such application of such provision is essential to this Note.

14. SUCCESSORS-IN-INTEREST AND ASSIGNS. This Note shall be binding upon and shall inure to the benefit of the successors-in-interest and assigns of each party to this Note. Nothing in this Paragraph shall create any rights enforceable by any person not a party to this Note, except for the rights of the successors-in-interest and assigns of each party to this Note, unless such rights are expressly granted in this Note to other specifically identified persons.

15. WAIVER. Any waiver of a default under this Note must be in writing and shall not be a waiver of any other default concerning the same or any other provision of this Note. No delay or omission in the exercise of any right or remedy shall impair such right or remedy or be construed as a waiver. A consent to or approval of any act shall not be deemed to waive or render unnecessary consent to or approval of any other or subsequent act.

GERALD G. LOEHR TRUST	AURORA TECHNOLOGIES CORPORATION a California corporation
By: /s/ Gerald G. Loehr, Trustee	By: /s/ Jack F. Butler 9/1/93
Gerald G. Loehr	Jack F. Butler, President
By: /s/ Clinton L. Lingren	By: /s/ Clinton L. Lingren 9-1-93
Clinton L. Lingren	Clinton L. Lingren, Secretary

AMENDMENT TO LOAN AGREEMENT

THIS AMENDMENT TO LOAN AGREEMENT (the "Amendment") dated as of May 13, 1994 amends the Loan Agreement dated as of September 1, 1993 by and between AURORA TECHNOLOGIES CORPORATION, a California corporation, with principal offices at 7408 Trade Street, San Diego, California 92121-2410 (the "Company"), and CLINTON L. LINGREN ("Lender"), as amended by the Addendum to Loan Agreement dated as of January 1, 1994, February 17, 1994 and April 14, 1994 (collectively, the "Original Agreement").

WHEREAS, Lender together with JACK F. BUTLER , and GERALD G. LOEHR , collectively (the "Founders"), have individually entered into loan agreements with the Company which provide for the Company to repay to the Founders principal totaling $735,000 and interest thereon;

WHEREAS, the Company and Kingsbury Capital Partners, L.P. ("Kingsbury") have entered into a Stock Purchase Agreement dated as of May 13, 1994, whereby Kingsbury will provide additional financing to the Company in exchange for Series A Preferred Stock of the Company, pursuant to which the Company has agreed to enter into this Amendment with Lender to amend the terms of the Original Agreement by the terms set forth below;

NOW, THEREFORE, in consideration of the promises and of the mutual provisions and obligations hereinafter set forth, the parties hereto agree as follows:

1. PAYMENTS. Principal and interest under this Amendment shall be paid as follows.

1.1. Interest shall be paid quarterly. The simple rate of interest shall be six and thirty-five hundredths percent (6.35%) per annum. Notwithstanding any provision of this Amendment, it is the intent and agreement of the parties that in the event any interest specified herein is found to violate any applicable law or regulation, this Amendment shall be construed or deemed amended so that the interest is adjusted to the extent necessary to comply with such applicable law or regulation.

1.2. Payment of principal shall not become due until the later of (i) March 31, 1999 or (ii) March 31 of the year immediately following the first year in which the Company's cash provided by operations is greater than zero as shown on the Company's audited statement of cash flows for such year. Subject to certain exceptions to payment provided herein, the principal shall be paid to Lender in twelve (12) equal quarterly installments, the first such payment to be made within forty-five (45) days of the initial due date and subsequent quarterly installments to be paid within forty-five (45) days of the end of each subsequent quarter. The Company shall make payment of quarterly installments to Lender in equal proportion to the amounts paid to the other Founders, and shall not make payment of any portion of Lender's principal before similar payment to other Founders. Notwithstanding anything to the contrary herein, the aggregate amount of the quarterly installments to principal paid to Lender and the other Founders shall not exceed fifty percent (50%) of the Company's cash provided by operations as shown on the Company's unaudited statement of cash flows for the prior quarter, in which event, any unpaid amounts of principal shall be carried forward and subsequent quarterly installments shall be adjusted accordingly to account for the principal carried forward.

2. Except as set forth herein, there have been no other amendments to the Original Agreement and all terms and conditions thereof shall remain in full force and effect.

3. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4. No waiver or modification of the terms of this Amendment shall be valid unless in writing, signed by both parties to this Amendment.

5. This Amendment shall be governed by and construed in accordance with the laws of the State of California, irrespective of its choice of law provisions.

IN WITNESS WHEREOF, the parties have caused this Amendment to be signed in duplicate by their duly authorized representatives. Entered into as of the day and year first above written.

AURORA TECHNOLOGIES CORPORATION

By /s/ Jack F. Butler

Title Presient

Jack F. Butler

By /s/ Jack F. Butler

Title President

AURORA TECHNOLOGIES CORPORATION

7408 Trade Street - San Diego, CA 92121-2410
(619) 549-4545 - Fax (619) 549-7714

ADDENDUM TO LOAN AGREEMENT

This ADDENDUM amends the Agreement between CLINTON L. LINGREN and Aurora Technologies Corporation ("Aurora") dated September 1, 1993 ("Original Agreement") to allow additional amounts to be loaned to Aurora from time to time, with the principal sum being increased accordingly. The rates of interest and all terms and conditions contained in the original Agreement will apply to the loans and new principal amounts.

Loans will be considered valid and new principal amounts established when properly recorded and accepted by the named Aurora officials below.

1.	1/1/94	$20,000.00	$210,000.00
	Date	Amount Loaned	New Principal Balance
	Loaned by:	Accepted for Aurora Technologies Corporation by:	
	/s/ Clinton L. Lingren	/s/ Jack F. Butler	/s/ Clinton L. Lingren

		Jack F. Butler President	Clinton L. Lingren Secretary
2.	2/17/94	$25,000.00	$235,000.00
	Date	Amount Loaned	New Principal Balance
	Loaned by:	Accepted for Aurora Technologies Corporation by:	
	/s/ Clinton L. Lingren	/s/ Jack F. Butler	/s/ Clinton L. Lingren
		Jack F. Butler President	Clinton L. Lingren Secretary
3.	4/14/94	$10,000.00	$245,000.00
	Date	Amount Loaned	New Principal Balance
	Loaned by:	Accepted for Aurora Technologies Corporation by:	
	/s/ Clinton L. Lingren	/s/ Jack F. Butler	/s/ Clinton L. Lingren
		Jack F. Butler President	Clinton L. Lingren Secretary

EXHIBIT 10.33

SEPT. 1, 1993

LOAN AGREEMENT

SAN DIEGO, CALIFORNIA

PREAMBLE: This Note is a consolidation of all amounts loaned by JACK F. BUTLER ("Holder") to Aurora Technologies Corporation ("Aurora"), a California Corporation. This Note cancels all loans made by JACK F. BUTLER prior to this date and all loan guarantees prior to this date by any and all Aurora directors to other Aurora directors.

Aurora promises to pay to JACK F. BUTLER a resident of RANCHO SANTA FE, CA ("Holder") at P.O. BOX 1333 the principal sum of ONE-HUNDRED-NINETY THOUSAND DOLLARS ($190,000.00), with interest on such principal sum from the date of this Note, as more fully set forth below.

1. PAYMENTS. Principal and interest under this Note shall be paid as follows.

1.1. Commencing on the first day of the month following the date of executing this agreement and continuing until February 1, 1996, interest only shall be paid at the rate of eight percent (8%) per annum. Thereafter principal and interest at the rate of 1.5% above the interest rate of a thirty-year U.S. treasury note maturing February 1, 2026, shall be paid in such equal monthly payments that the entire indebtedness shall be paid off on February 1, 2001.

Any or all of this Note may be prepaid without penalty. Any prepayments shall first be applied to unpaid Interest and then to principal. Aurora agrees not to prepay any amount on this Note unless equal amounts are paid on the other two similar loan agreements of this same date between Aurora and GERALD G. LOEHR TRUST and CLINTON L. LINGREN.

2. MANNER OF PAYMENTS. All payments by Aurora under this Note shall be made in lawful money of the United States of America without set-off, deduction or counterclaim of any kind whatsoever.

3. COMMERCIAL PURPOSES. Aurora acknowledges that the loan evidenced by this Note is obtained for business or commercial purposes and that the proceeds of such loan will not be used primarily for personal, family, household or agricultural purposes.

4. NOTE WAIVERS. Aurora waives presentment, demand. protest, notice of demand and dishonor.

5. GOVERNING LAW. This Note shall be governed by and construed in accordance with the laws of the State of California.

6. VENUE AND JURISDICTION. For purposes of venue and jurisdiction, this Note shall be deemed made and to be performed in San Diego, California.

7. TIME OF ESSENCE. Time and strict and punctual performance are of the essence with respect to each provision of this Note.

8. ATTORNEY'S FEES. The prevailing party to this Note shall be entitled to recover from the unsuccessful party to this Note all costs, expenses, and actual attorney's fees relating to or arising from the enforcement or interpretation of, or any litigation, arbitration or mediation relating to or arising from, this Note.

9. MODIFICATION. This Note may be modified only by a contract in writing executed by the party to this Note against whom enforcement of such modification is sought.

10. HEADINGS. The headings of the Paragraphs of this Note have been included only for convenience, and shall not be deemed in any manner to modify or limit any of the provisions of this Note, or be used in any manner in the interpretation of this Note.

11. PRIOR UNDERSTANDINGS. This Note contains the entire agreement between the parties to this Note with respect to the subject matter of this Note, is intended as a final expression of such parties' agreement with respect to such terms as are included in this Note, is intended as a complete and exclusive statement of the terms of such agreement, and supersedes all negotiations, stipulations, understandings, agreements, representations and warranties, if any, with respect to such subject matter, which precede or accompany the execution of this Note.

12. INTERPRETATION. Whenever the context so requires in this Note, all words used in the singular shall be construed to have been used in the plural (and vice versa), each gender shall be construed to include any other genders, and the word "person" shall be construed to include a natural person, a corporation, a firm, a partnership, a joint venture, a trust, an estate or any other entity.

13. PARTIAL INVALIDITY. Each provision of this Note shall be valid and enforceable to the fullest extent permitted by law, if any provision of this Note or the application of such provision to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Note, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected by such invalidity or unenforceability, unless such provision or such application of such provision is essential to this Note.

14. SUCCESSORS-IN-INTEREST AND ASSIGNS. This Note shall be binding upon and shall inure to the benefit of the successors-in-interest and assigns of each party to this Note. Nothing in this Paragraph shall create any rights enforceable by any person not a party to this Note, except for the rights of the successors-in-interest and assigns of each party to this Note, unless such rights are expressly granted in this Note to other specifically identified persons.

15. WAIVER. Any waiver of a default under this Note must be in writing and shall not be a waiver of any other default concerning the same or any other provision of this Note. No delay or omission in the exercise of any right or remedy shall impair such right or remedy or be construed as a waiver. A consent to or approval of any act shall not be deemed to waive or render unnecessary consent to or approval of any other or subsequent act.

GERALD G. LOEHR TRUST	AURORA TECHNOLOGIES CORPORATION a California corporation
By: /s/ Gerald G. Loehr Trustee	By: /s/ Jack F. Butler 9/1/93
Gerald G. Loehr	Jack F. Butler, President
By: /s/ Jack F. Butler	By: /s/ Clinton L. Lingren 9-1-93
Jack F. Butler	Clinton L. Lingren, Secretary

AMENDMENT TO LOAN AGREEMENT

THIS AMENDMENT TO LOAN AGREEMENT (the "Amendment") dated as of May 13, 1994 amends the Loan Agreement dated as of September 1, 1993 by and between AURORA TECHNOLOGIES CORPORATION, a California corporation, with principal offices at 7406 Trade Street, San Diego, California 92121-2410 (the "Company"), and JACK F. BUTLER, ("Lender"), as amended by the Addendum to Loan Agreement dated a8 of January 1, 1994, February 17, 1994 and April 14, 1994 (collectively, the "Original Agreement").

WHEREAS, Lender together with CLINTON L. LINGREN, and GERALD G. LOEHR, collectively (the "Founders"), have individually entered into loan agreements with the Company which provide for the Company to repay to the Founders principal totaling $735,000 and interest thereon;

WHEREAS, the Company and Kingsbury Capital Partners, L.P. ("Kingsbury") have entered into a Stock Purchase Agreement dated as of May 13, 1994, whereby Kingsbury will provide additional financing to the Company in exchange for Series A Preferred Stock of the Company, pursuant to which the Company has agreed to enter into this Amendment with Lender to amend the terms of the Original Agreement by the terms set forth below;

NOW, THEREFORE, in consideration of the promises and of the mutual provisions and obligations hereinafter set forth, the parties hereto agree as follows:

1. PAYMENTS. Principal and interest under this Amendment shall be paid as follows.

1.1. Interest shall be paid quarterly. The simple rate of interest shall be six and thirty-five hundredths percent (6.35%) per annum. Notwithstanding any provision of this Amendment, it is the intent and agreement of the parties that in the event any interest specified herein is found to violate any applicable law or regulation, this Amendment shall be construed or deemed amended so that the interest is adjusted to the extent necessary to comply with such applicable law or regulation.

1.2. Payment of principal shall not become due until the later of (i) March 31, 1999 or (ii) March 31 of the year immediately

following the first year in which the Company's cash provided by operations is greater than zero as shown on the Company's audited statement of cash flows for such year. Subject to certain exceptions to payment provided herein, the principal shall be paid to Lender in twelve (12) equal quarterly installments, the first such payment to be made within forty-five (45) days of the initial due date and subsequent quarterly installments to be paid within forty-five (45) days of the end of each subsequent quarter. The Company shall make payment of quarterly installments to Lender in equal proportion to the amounts paid to the other Founders, and shall not make payment of any portion of Lender's principal before similar payment to other Founders. Notwithstanding anything to the contrary herein, the aggregate amount of the quarterly installments to principal paid to Lender and the other Founders shall not exceed fifty percent (50%) of the Company's cash provided by operations as shown on the Company's unaudited statement of cash flows for the prior quarter, in which event, any unpaid amounts of principal shall be carried forward and subsequent quarterly installments shall be adjusted accordingly to account for the principal carried forward.

2. Except as set forth herein, there have been no other amendments to the Original Agreement and all terms and conditions thereof shall remain in full force and effect.

3. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4. No waiver or modification of the terms of this Amendment shall be valid unless in writing, signed by both parties to this Amendment.

5.. This Amendment shall be governed by and construed in accordance with the laws of the State of California, irrespective of its choice of law provisions.

IN WITNESS WHEREOF, the parties have caused this Amendment to be signed in duplicate by their duly authorized representatives. Entered into as of the day and year first above written.

AURORA TECHNOLOGIES CORPORATION

By /s/ Jack F. Butler

Title President

Clinton L. Lingren

By /s/ Clinton L. Lingren

Title

AURORA TECHNOLOGIES CORPORATION

7408 TRADE STREET - SAN DIEGO. CA 92121-2410
(619) 549-4645 - FAX (619) 549-7714

ADDENDUM TO LOAN AGREEMENT

This ADDENDUM amends the Agreement between JACK F. BUTLER and Aurora Technologies Corporation ("Aurora") dated September 1, 1993 ("Original Agreement") to allow additional amounts to be loaned to Aurora from time to time, with the principal sum being increased accordingly. The rates of interest and all terms and conditions contained in the original Agreement will apply to the loans and new principal amounts.

Loans will be considered valid and new principal amounts established when properly recorded. and accepted by the named Aurora officials below.

1.	1/1/99	$20,000.00	$210,000.00
	Date	Amount Loaned	New Principal Balance
	Loaned by:	Accepted for Aurora Technologies Corporation by:	
	/s/ Jack F. Butler	/s/ Jack F. Butler	/s/ Clinton L. Lingren

		Jack F. Butler President	Clinton L. Lingren Secretary
2.	2/17/94	$25,000.00	$235,000.00
	Date	Amount Loaned	New Principal Balance
	Loaned by:	Accepted for Aurora Technologies Corporation by:	
	/s/ Jack F. Butler	/s/ Jack F. Butler	/s/ Clinton L. Lingren
		Jack F. Butler President	Clinton L. Lingren Secretary
3.	4/14/94	$10,000.00	$245,000.00
	Date	Amount Loaned	New Principal Balance
	Loaned by:	Accepted for Aurora Technologies Corporation by:	
	/s/ Jack F. Butler	/s/ Jack F. Butler	/s/ Clinton L. Lingren
		Jack F. Butler President	Clinton L. Lingren Secretary

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR ANY APPLICABLE STATE SECURITIES LAW, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 AND AN EXEMPTION UNDER APPLICABLE STATE LAW OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

WARRANT TO PURCHASE STOCK

Corporation:	Digirad Corporation
Number of Shares:	42,490
Class of Stock:	Series E Preferred Stock
Initial Exercise Price:	$3.036
Issue Date:	July 31, 2001
Expiration Date:	July 31, 2006

THIS WARRANT CERTIFIES THAT, for the agreed upon value of $1.00 and for other good and valuable consideration, SILICON VALLEY BANK ("Holder") is entitled to purchase the number of fully paid and nonassessable shares of the class of securities (the "Shares") of the corporation (the "Company") at the initial exercise price per Share (the "Warrant Price") all as set forth above and as adjusted pursuant to Article 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant.

ARTICLE 1. EXERCISE.

1.1 METHOD OF EXERCISE. Holder may exercise this Warrant by delivering a duly executed Notice of Exercise in substantially the form attached as Appendix 1 to the principal office of the Company. Unless Holder is exercising the conversion right set forth in Section 1.2, Holder shall also deliver to the Company a check for the aggregate Warrant Price for the Shares being purchased.

1.2 CONVERSION RIGHT. In lieu of exercising this Warrant as specified in Section 1.1, Holder may from time to time convert this Warrant, in whole or in part, into a number of Shares determined by dividing (a) the aggregate fair market value of the Shares or other securities otherwise issuable upon exercise of this Warrant minus the aggregate Warrant Price of such Shares by (b) the fair market value of one Share. The fair market value of the Shares shall be determined pursuant to Section 1.3.

1.3 FAIR MARKET VALUE. If the Shares are traded in a public market, the fair market value of the Shares shall be the closing price of the Shares (or the closing price of the Company's stock into which the Shares are convertible) reported for the business day immediately before Holder delivers its Notice of Exercise to the Company. If the Shares are not traded in a public market, the Board of Directors of the Company shall determine fair market value in its reasonable good faith judgment.

1.4 DELIVERY OF CERTIFICATE AND NEW WARRANT. Promptly after Holder exercises or converts this Warrant, the Company shall deliver to Holder certificates for the Shares acquired and, if this Warrant has not been fully exercised or converted and has not expired, a new Warrant representing the Shares not so acquired.

1.5 REPLACEMENT OF WARRANTS. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation, or surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor.

1.6 ASSUMPTION ON SALE, MERGER, OR CONSOLIDATION OF THE COMPANY.

1.6.1 "ACQUISITION". For the purpose of this Warrant, "Acquisition" means any sale, license, or other disposition of all or substantially all of the assets of the Company, or any reorganization, consolidation, or merger of the Company where the holders of the Company's securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction.

1.6.2 ASSUMPTION OF WARRANT. Upon the closing of any Acquisition, the successor entity shall assume the obligations of this

Warrant, and this Warrant shall be exercisable for the same securities, cash, and property as would be payable for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on the record date for the Acquisition and subsequent closing. The Initial Exercise Price and/or number of Shares shall be adjusted accordingly.

ARTICLE 2. ADJUSTMENTS TO THE SHARES.

2.1 STOCK DIVIDENDS, SPLITS, ETC. If the Company declares or pays a dividend on its common stock (or the Shares if the Shares are securities other than common stock) payable in common stock, or other securities, subdivides the outstanding common stock into a greater amount of common stock, or if the Shares are securities other than common stock, subdivides the Shares in a transaction that increases the amount of common stock into which the Shares are convertible, then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without cost to Holder, the total number and kind of securities to which Holder would have been entitled had Holder owned the Shares of record as of the date the dividend or subdivision occurred. If the outstanding shares are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Initial Exercise Price shall be proportionately increased.

2.2 RECLASSIFICATION, EXCHANGE, COMBINATIONS OR SUBSTITUTION. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon exercise or conversion of this Warrant, Holder shall be entitled to receive, upon exercise or conversion of this Warrant, the number and kind of securities and property that Holder would have received for the Shares if this Warrant had been exercised immediately before such reclassification, exchange, substitution, or other event. Such

an event shall include any automatic conversion of the outstanding or issuable securities of the Company of the same class or series as the Shares to common stock pursuant to the terms of the Companys* of Incorporation upon the closing of a registered public offering of the Company's common stock. The Company or its successor shall promptly issue to Holder a new Warrant for such new securities or other property. The new Warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article 2 including, without limitation, adjustments to the Initial Exercise Price and to the number of securities or property issuable upon exercise of the new Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, substitutions, or other events.

*CERTIFICATE

2.3 ADJUSTMENTS FOR DILUTING ISSUANCES. The *provisions set forth for the Shares in the Company's Certificate of Incorporation relating to the above in effect as of the Issue Date may not be amended, modified or waived, without the prior written consent of Holder unless such amendment, modification or waiver affects Holder in the same manner as they affect all other shareholders of the same series of shares granted to the Holder.

*CONVERSION PRICE ADJUSTMENTS

2.4 NO IMPAIRMENT. The Company shall not, by amendment of its Certificate of Incorporation or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall at all times in good faith assist in carrying out of all the provisions of this Article 2 and in taking all such action as may be necessary or appropriate to protect Holder's rights under this Article against impairment.

2.5 FRACTIONAL SHARES. No fractional Shares shall be issuable upon exercise or conversion of the Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company, shall eliminate such fractional share interest by paying Holder the amount computed by multiplying the fractional interest by the fair market value of a full Share.

2.6 CERTIFICATE AS TO ADJUSTMENTS. Upon each adjustment of the Warrant Price, the Company shall promptly notify Holder in writing, and, at the Company's expense, promptly compute such adjustment, and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Warrant Price in effect upon the date thereof and the series of adjustments leading to such Warrant Price.

ARTICLE 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to the Holder at follows:

(a) The initial Warrant Price referenced on the first page of this Warrant is not greater than (i) the price per share at which the Shares were last issued in an arms-

length transaction in which at least $500,000 of the Shares were sold* (ii) the fair market value of the Shares as of the date of this Warrant.

*OR

(b) All Shares which may be issued upon the exercise of the purchase right represented by this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

(c) The Capitalization Table* previously provided to Holder remains true and complete as of the Issue Date.

*DATED AS OF _____

3.2 NOTICE OF CERTAIN EVENTS. If the Company proposes at any time (a) to declare any dividend or distribution upon its common stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (c) to effect any reclassification or recapitalization of common stock; (d) to merge or consolidate with or into any other corporation, or sell, lease, license, or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; or (e) offer holders of registration rights the opportunity to participate in an underwritten public offering of the company's securities for cash, then, in connection with each such event, the Company shall give Holder (1) at least 10 days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of common stock will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (c) and (d) above; (2) in the case of the matters referred to in (c) and (d) above at least 10 days prior written notice of the date when the same will take place (and specifying the date on which the holders of common stock will be entitled to exchange their common stock for securities or other property deliverable upon the occurrence of such event); and (3) in the case of the matter referred to in (e) above, the same notice as is given to the holders of such registration rights.

3.3 REGISTRATION UNDER SECURITIES ACT OF 1933, AS AMENDED. The Company agrees that the Shares or, if the Shares are convertible into common stock of the Company, such common stock, shall be subject to the registration rights set forth in the Company's Amended and Restated Investors' Rights Agreement dated November 10, 2000 or similar agreement. The provisions set forth in the Company's Investors' Right Agreement or similar agreement relating to the above in effect as of the Issue Date may not be amended, modified or waived without the prior written consent of Holder unless such amendment, modification or waiver affects Holder in the same manner as they affect all other shareholders of the same series of shares granted to the Holder.*

*THE CONSENT, IF ANY, REQUIRED OF COMPANY'S EXISTING SIGNATORIES TO THE INVESTORS' RIGHTS AGREEMENT WITH RESPECT TO THE FOREGOING REGISTRATION RIGHTS SHALL BE OBTAINED, AND EVIDENCE

THEREOF SATISFACTORY TO HOLDER PROVIDED, WITHIN 30 DAYS OF THE ISSUE DATE. THE FAILURE TO SO OBTAIN AND PROVIDE SUCH CONSENT WITHIN SUCH 30 DAYS SHALL CONSTITUTE AN EVENT OF DEFAULT UNDER THE LOAN AND SECURITY AGREEMENT BETWEEN COMPANY AND HOLDER OF APPROXIMATE EVEN DATE HEREWITH. ALTERNATIVELY, HOLDER WILL BE MADE A PARTY TO THE INVESTORS' RIGHTS AGREEMENT OR SIMILAR AGREEMENT. IN EITHER EVENT, SUCH CONSENT OR AGREEMENT MAKING HOLDER A PARTY TO THE INVESTORS' RIGHTS AGREEMENT WILL PROVIDE THAT THE SHARE LIMITATION SET FORTH IN SECTION 2.3 OF THE INVESTORS' RIGHTS AGREEMENT WILL NOT BE APPLICABLE TO THE HOLDER.

ARTICLE 4. REPRESENTATIONS WARRANTIES OF THE HOLDER. The Holder represents and warrants to the Company as follows:

4.1 PURCHASE FOR OWN ACCOUNT. Except for transfers to Holder's affiliates, this Warrant and the securities to be acquired upon exercise of this Warrant by the Holder will be acquired for investment for the Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the 1933 Act, and the Holder has no present intention of selling, granting any participation in, or otherwise distributing the same. If not an individual, the Holder also represents that the Holder has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2 DISCLOSURE OF INFORMATION. The Holder has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. The Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to the Holder or to which the Holder has access.

4.3 INVESTMENT EXPERIENCE. The Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. The Holder: (i) has experience as an investor in securities of companies in the development stage and acknowledges that the Holder is able to fend for itself, can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that the Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or (ii) has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables the Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 ACCREDITED INVESTOR STATUS. The Holder is an "accredited investor" within the meaning of Regulation D promulgated under the 1933 Act.

ARTICLE 5. MISCELLANEOUS.

5.1 TERM: This Warrant is exercisable in whole or in part at any time and from time to time on or before the Expiration Date.

5.2 LEGENDS. This Warrant and the Shares (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall be imprinted with a legend in substantially the following form:

> THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR UNDER ANY APPLICABLE STATE LAWS, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THERE OF UNDER SUCH ACT AND AN EXEMPTION UNDER APPLICABLE STATE LAW OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

5.3 COMPLIANCE WITH SECURITIES LAWS ON TRANSFER. This Warrant and the Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to an affiliate of Holder or if there is no material question as to the availability of current information as referenced in Rule 144(c), Holder represents that it has complied with Rule 144(d) and (e) in reasonable detail, the selling broker represents that it has complied with Rule 144(f), and the Company is provided with a copy of Holder's notice of proposed sale.*

*5.3.A. RIGHTS OF STOCKHOLDERS. SUBJECT TO SECTIONS 2.1 AND 3.2 OF THIS WARRANT, THE HOLDER SHALL NOT BE ENTITLED TO VOTE OR RECEIVE DIVIDENDS OR BE DEEMED THE HOLDER OF SERIES E PREFERRED STOCK OR ANY OTHER SECURITIES OF THE COMPANY THAT MAY AT ANY TIME BE ISSUABLE ON THE EXERCISE HEREOF FOR ANY PURPOSE, NOR SHALL ANYTHING CONTAINED HEREIN BE CONSTRUED TO CONFER UPON THE HOLDER, AS SUCH, ANY OF THE RIGHTS OF A STOCKHOLDER OF THE COMPANY OR ANY RIGHT TO VOTE FOR THE ELECTION OF DIRECTORS OR UPON ANY MATTER SUBMITTED TO STOCKHOLDERS AT ANY MEETING THEREOF, OR TO GIVE OR WITHHOLD CONSENT TO ANY CORPORATE ACTION (WHETHER UPON ANY RECAPITALIZATION, ISSUANCE OF STOCK, RECLASSIFICATION OF STOCK, CHANGE

OF PAR VALUE, OR CHANGE OF STOCK TO NO PAR VALUE, CONSOLIDATION, MERGER, CONVEYANCE, OR OTHERWISE) OR TO RECEIVE NOTICE OF MEETINGS, OR TO RECEIVE DIVIDENDS OR SUBSCRIPTION RIGHTS OR OTHERWISE UNTIL THE WARRANT SHALL HAVE BEEN EXERCISED AND THE SHARES OF SERIES E PREFERRED STOCK PURCHASABLE UPON THE EXERCISE HEREOF SHALL HAVE BEEN ISSUED, AS PROVIDED HEREIN.

5.3.B. MARKET STAND-OFF AGREEMENT. Each Holder hereby agrees that it shall not, to the extent requested by the Company and an underwriter of Common Stock (or other securities) of the Company, sell or otherwise transfer or dispose (other than to those donees who agree to be similarly bound) of any shares of Series E Preferred Stock and/or Common Stock issued upon the conversion or exercise of this Warrant during a reasonable and customary period of time, as agreed to by the Company and the underwriters, not to exceed 180 days, following the effective

date of a registration statement of the Company filed under the Securities Act; provided, however, that:

(a) such agreement shall be applicable only to the first such registration statement of the Company which covers shares (or securities) to be sold on its behalf to the public in an underwritten offering; and

(b) all officers and directors of the Company, all holders of at least one percent (1%) of the issued and outstanding securities of the Company and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the shares of Series E Preferred Stock and/or Common Stock issued upon the conversion or exercise of this Warrant held by Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such reasonable and customary period.

5.4 TRANSFER PROCEDURE. Subject to the provisions of Section 5.3, Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable, directly or indirectly, upon conversion of the Shares, if any) to Silicon Valley Bancshares, or The Silicon Valley Bank Foundation, or to any affiliate of Holder at any time without prior notice to Company; PROVIDED, HOWEVER , if Holder transfers this warrant to any other transferee, Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and surrendering this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable). The Company may refuse to transfer this Warrant to any person who directly competes with the Company unless the Company's stock is publicly traded.

5.5 NOTICES. All notices and other communications from the Company to the Holder, or vice versa, shall be deemed delivered and effective when given personally or mailed by first-class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company or the Holder, as the case may be, in writing by the Company or such holder from time to time. All notices to the Holder shall be addressed as follows:

Silicon Valley Bank
Attn: Treasury Department
3003 Tasman Drive, HG 110
Santa Clara, CA 95054

5.6 WAIVER. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 ATTORNEY'S FEES. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable

5.8 AUTOMATIC CONVERSION UPON EXPIRATION. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above is greater than the Exercise Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be converted pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised or converted, and the Company shall promptly deliver a certificate representing the Shares (or such other

securities) issued upon such conversion to the Holder.

5.9 GOVERNING LAW. This Warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to its principles regarding conflicts of law.

"COMPANY"
Digirad Corporation

By: /s/ Scott Huennekens

Name: R. Scott Huennekens

(Print)
Title: Chairman of The Board, President or Vice President

By: /s/ Gary JG Atkinson

Name: Gary JG Atkinson

(Print)
Title: Chief Financial Officer, Secretary, Assistant Treasurer or Assistant Secretary

"HOLDER"
Silicon Valley Bank

By: /s/ illegible

Name: ILLEGIBLE

Title: Senior Vice President

APPENDIX I

NOTICE OF EXERCISE

1. Holder elects to purchase _____ shares of the Common/Series _____ Preferred [strike one] Stock of _____ pursuant to the terms of the attached Warrant, and tenders payment of the purchase price of the shares in full.

1. Holder elects to convert the attached Warrant into Shares/cash [strike one] in the manner specified in the Warrant. This conversion is exercised for _____ of the Shares covered by the Warrant.

[Strike paragraph that does not apply.]

2. Please issue a certificate or certificates representing the shares in the name specified below:

Holders Name

(Address)

3. The undersigned represents it is acquiring the shares solely for its own account and not as a nominee for any other party and not with a view toward the resale or distribution except in compliance with applicable securities laws.

HOLDER:

By:

Name:

Title:

(Date)

EXHIBIT 21.1

LIST OF SUBSIDIARIES

Name	Jurisdiction of Incorporation
Digirad Imaging Solutions, Inc.	Delaware
Digirad Imaging Systems, Inc.	Delaware

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated June 5, 2001 (except for the first paragraph of Note 4 and Note 11, as to which the date is August 23, 2001) in Amendment No. 1 to the Registration Statement (Form S-1 No. 333-68256) and the related Prospectus of Digirad Corporation for the registration of shares of its common stock expected to be filed with the Securities and Exchange Commission on or about October 5, 2001.

Our audits also included the financial statement schedule of Digirad Corporation for each of the three years in the period ended December 31, 2000 listed in Item 16(b) of this registration statement. This schedule is the responsibility of the Company's management. Our responsibilty is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ ERNST & YOUNG LLP
ERNST & YOUNG LLP

San Diego, California
October 4, 2001