As filed with the Securities and Exchange Commission on June 4, 2004

Registration No. 333-113760

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 4
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)

13950 Stowe Drive
Poway, California 92064
(858) 726-1600
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

David M. Sheehan
Chief Executive Officer
Digirad Corporation
13950 Stowe Drive
Poway, California 92064
(858) 726-1600
(Name, address, including zip code, and telephone number, including area code, of agent for service)

John A. de Groot, Esq. **Taylor L. Stevens, Esq.** **Kristopher L. Hanson, Esq.** **Morrison & Foerster LLP** **3811 Valley Centre Drive, Suite 500** **San Diego, California 92130** **(858) 720-5100**	**Copies to:** **Vera P. Pardee, Esq.** **Vice President and General Counsel** **Digirad Corporation** **13950 Stowe Drive** **Poway, California 92064** **(858) 726-1600**	**Charles K. Ruck, Esq.** **Scott N. Wolfe, Esq.** **B. Shayne Kennedy, Esq.** **Latham & Watkins LLP** **12636 High Bluff Drive, Suite 300** **San Diego, California 92130** **(858) 523-5400**

Approximate date of commencement of proposed sale to the public:
As soon as practicable after this Registration Statement becomes effective.

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. o

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. o

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. o

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. o

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

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 said Section 8(a), may determine.

Subject to Completion
Preliminary Prospectus dated June 4, 2004

PROSPECTUS

5,500,000 Shares

Common Stock

This is our initial public offering of shares of our common stock. We are offering 5,500,000 shares. We expect the initial public offering price to be between $12.00 and $14.00 per share.

Currently, no public market exists for the shares. After pricing of the offering, we expect that the shares will be quoted on the Nasdaq National Market under the symbol "DRAD."

Investing in the common stock involves risks that are described in the "Risk Factors" section beginning on page 7 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

The underwriters may also purchase up to an additional 825,000 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 to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2004.

Merrill Lynch & Co. **JPMorgan**

Banc of America Securities LLC **William Blair & Company**

The date of this prospectus is , 2004.

Innovations in Solid-State Technology

Proprietary Medical Imaging Products and Services by Digirad

DIGIRAD®
Leaders in Solid-State Imaging

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary does not contain all of the information you should consider before buying shares of our common stock. You should read the entire prospectus carefully, especially the "Risk Factors" section and our consolidated financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in shares of our common stock. References in this prospectus to our certificate of incorporation and bylaws refer to the certificate of incorporation and bylaws that will be in effect upon completion of this offering.

Digirad Corporation

We are a leader in the development, manufacture and distribution of solid-state medical imaging products and services for the detection of cardiovascular disease and other medical conditions. We designed and commercialized the first solid-state gamma camera. Our initial focus is on nuclear cardiology imaging procedures performed with gamma cameras, which we believe generate revenue of approximately $10.0 billion annually in the United States. Our target markets are primarily physician practices and outpatient clinics, which we believe constitute approximately 25% of the total market, or $2.5 billion.

Our gamma cameras use small semiconductors to replace the bulky vacuum tubes used historically in gamma cameras. By utilizing solid-state technology, we believe that our imaging systems maintain image quality while offering significant advantages over vacuum tube-based systems, including mobility through reduced size and weight, enhanced operability and reliability and improved patient comfort and utilization. Our imaging systems, consisting of a gamma camera and accessories, easily fit into spaces as small as seven feet by eight feet. Due to the size and other limitations of vacuum tube cameras, nuclear imaging has traditionally been confined to dedicated and customized space within a hospital or imaging center. The mobility of our imaging systems enables us to deliver nuclear imaging procedures in a wide range of clinical settings—physician offices, outpatient clinics or within multiple departments in a hospital.

We sell our imaging systems to physicians, outpatient clinics and hospitals. In addition, through our wholly-owned subsidiaries, Digirad Imaging Solutions, Inc. and Digirad Imaging Systems, Inc., which we refer to collectively as DIS, we also offer a comprehensive and mobile imaging leasing service, called FlexImaging®, for physicians who wish to perform nuclear cardiology imaging procedures in their offices but do not have the patient volume, capital or resources to justify purchasing a gamma camera. DIS provides our physician customers with an imaging system, certified personnel, required licensure and other support for the performance of nuclear imaging procedures under the supervision of our physician customers. Physicians enter into annual contracts for imaging services delivered on a per-day basis ranging from one day per month to several days per week. DIS currently operates 21 regional hubs and eight fixed sites and performs services in 17 states and the District of Columbia.

Our unique dual sales and leasing distribution model offers physicians, clinics and hospitals versatile delivery options that appeal to medical establishments of all sizes, capabilities and imaging expertise. The mobility of our imaging systems and the flexibility of our DIS service allow cardiologists to provide nuclear imaging procedures in their offices to patients that they historically had to refer to hospitals or imaging centers. As a result, we provide physicians with more control over the diagnosis and treatment of their patients and enable physicians to capture revenue from procedures that would otherwise be referred to these hospitals and imaging centers.

Nuclear imaging is a clinical diagnostic tool, with established reimbursement codes, that has been in use for over 40 years. According to industry sources, approximately 18.4 million nuclear imaging procedures were performed in the United States in 2002, of which approximately 9.9 million were cardiac procedures, a volume that is expected to grow by approximately 25% annually over the next three years. We believe the growth in nuclear cardiology imaging will be driven by an increase in coronary heart disease resulting from the aging of baby boomers and the record rate of obesity and diabetes in all age groups. We estimate that the growth rate in 2002 for nuclear imaging procedures performed in physician offices was approximately 44% and in hospitals was approximately 6%. We expect the mobility of our imaging systems

to continue to allow us to capitalize on this shift in the delivery of nuclear cardiology imaging services from hospitals to physician offices.

The target market for our products is the approximately 30,000 cardiologists in the United States that perform or could perform nuclear cardiology procedures. To date, we have sold or provided imaging services through DIS to approximately 500 physicians. In 2003, DIS performed over 66,000 patient procedures.

We sold our first gamma camera in March 2000, and we established DIS in September 2000. We had consolidated revenues and net losses of $41.5 million and $12.8 million, respectively, in fiscal 2002, $56.2 million and $1.7 million, respectively, in fiscal 2003 and $15.9 million and $266,000, respectively, for the three months ended March 31, 2004. Revenues from DIS and from our camera sales constituted 62% and 38%, respectively, of our 2003 consolidated revenues and 66% and 34%, respectively, of our consolidated revenues for the three months ended March 31, 2004. We believe DIS will continue to provide us with recurring annual contractual revenue and comprise the largest component of our consolidated revenues.

Our Competitive Strengths

We believe that our position as a market leader in the nuclear cardiac imaging market is a product of the following competitive strengths:

- *Leading Solid-State Technology*. We were the first company to develop and commercialize solid-state technology for nuclear imaging applications.
- *Mobile Applications Through Reduced Size and Weight*. Our solid-state technology has allowed us to reduce the size and weight of gamma cameras, resulting in the only in-office mobile cardiac gamma camera on the market.
- *Image Quality*. We believe our imaging systems maintain a high-quality image despite the rigors of a mobile environment.
- *Enhanced Operability and Reliability*. We believe our imaging systems provide more convenient operation, better power efficiency and increased durability as compared to vacuum tube cameras.
- *Improved Patient Comfort and Utilization*. We believe the upright and open architecture of our patient chair can reduce patient claustrophobia and increase patient comfort when compared to traditional vacuum tube-based systems and may increase patient utilization.
- *Unique Dual Distribution*. We have implemented a unique dual distribution model by offering our physician and hospital customers the ability to either purchase or lease our imaging systems through DIS.
- *Intellectual Property Portfolio*. We have developed an intellectual property portfolio that includes product, component and process patents covering various aspects of our imaging systems. Currently, we have 21 patents issued and 10 pending patent applications in the United States, and we have two patents issued and 21 pending patent applications internationally.

Our Business Strategy

We intend to continue to expand our business, improve our market position and increase our revenue and profits by pursuing the following business strategies:

- *Continued Innovation in Solid-State Imaging Technology*. We intend to maintain our leadership position in solid-state imaging technology by continuing to invest resources in research and development.

- *Expand Our DIS Business*. We plan to expand our DIS business into several new states, add new hub locations in states in which we currently operate and increase hub utilization by adding physician customers and routes. We also intend to pursue cardiology opportunities for DIS in hospitals and new clinical applications for DIS in neurology, oncology and surgery.

- *Increase Market Share in Camera Sales*. We believe that we can grow our market share by capitalizing on the recent trend of nuclear cardiology procedures shifting from the hospital to the physician office.

- *Expand International Sales and Marketing Presence*. We intend to increase our presence internationally by entering into relationships with distributors that have the experience, expertise and service network to sell and support our products internationally.

- *Drive Margin Improvements and Growth*. We plan to enhance our product margins by achieving operating efficiencies, reducing manufacturing costs and increasing product reliability.

Corporate Information

Our business was originally incorporated in California in November 1985 and we reincorporated in Delaware in January 1997. Our principal executive offices are located at 13950 Stowe Drive, Poway, California 92064 and our telephone number is (858) 726-1600. We maintain a website on the Internet at *www.digirad.com*. The information contained in, or that can be accessed through, our website is not a part of this prospectus. Unless the context requires otherwise, as used in this prospectus the terms "Digirad," "we," "us" and "our" refer to Digirad Corporation, a Delaware corporation, and its subsidiaries.

We have trademark registrations in the United States for 2020*tc* Imager®, CardiusSST®, Digirad®, Digirad Logo®, Digirad Imaging Solutions®, FlexImaging® and SPECTour®. We have trademark applications pending in the United States for the following marks: Cardius™, DigiServ℠, DigiSpect℠, DigiTech℠ and Solidium℠. We have obtained and sought trademark protection for some of the above listed marks in the European Community and Japan.

THE OFFERING

Common stock we are offering	5,500,000 shares
Common stock to be outstanding after this offering	17,998,646 shares
Use of proceeds	We expect to use a majority of the net proceeds of this offering to manufacture and market our gamma cameras, build our sales and marketing capabilities, expand our DIS business and repay outstanding lines of credit and notes payable of approximately $9.7 million. To a lesser extent, we anticipate using the remaining net proceeds of this offering for further research and development relating to our existing products and new product opportunities, to finance regulatory approval activities and for general corporate purposes. We may also use a portion of the net proceeds of this offering to acquire products, technologies or businesses that are complementary to our own.
Proposed Nasdaq National Market symbol	DRAD

The number of shares of common stock to be outstanding after this offering is based on the shares of common stock outstanding as of March 31, 2004. This number excludes as of March 31, 2004:

- 1,581,519 shares of our common stock subject to outstanding options under our 1991 Stock Option Program, our 1997 Stock Option/Stock Issuance Plan and our 1998 Stock Option/Stock Issuance Plan, having a weighted average exercise price of $2.42 per share;
- 58,904 shares of our common stock available for future issuance under our 1991 Stock Option Program, our 1997 Stock Option/Stock Issuance Plan and our 1998 Stock Option/Stock Issuance Plan; and
- 63,971 shares of our common stock issuable upon exercise of outstanding warrants (including warrants to purchase preferred stock that are convertible into common stock), having a weighted average exercise price of $33.39 per share.

In addition, except where we state otherwise, the information we present in this prospectus reflects:

- the automatic conversion of all our outstanding preferred stock into 12,444,294 shares of common stock upon the completion of this offering;
- the adoption of our restated certificate of incorporation and restated bylaws to be effective upon the completion of this offering;
- no exercise of the underwriters' over-allotment option;
- a 1-for-200 reverse stock split of our capital stock effected in October 2002; and
- a 1-for-3.5 reverse stock split of our common stock, which was approved by our stockholders on April 30, 2004.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following table summarizes our consolidated financial information for the periods presented. You should read this information together with our consolidated financial statements and the related notes appearing elsewhere in this prospectus and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this prospectus. The summary financial data at March 31, 2004 and for the three months ended March 31, 2003 and 2004 are derived from our unaudited financial statements which are included elsewhere in this prospectus.

	Years Ended December 31,			Three Months Ended March 31,	
Statement of Operations Data:	**2001**	**2002**	**2003**	**2003**	**2004**
	(In thousands, except per share amounts)				
Revenues:					
DIS	$ 10,239	$ 23,005	$ 34,848	$ 7,503	$ 10,407
Product	18,065	18,527	21,388	5,476	5,461
Total revenues	28,304	41,532	56,236	12,979	15,868
Cost of revenues:					
DIS	8,344	16,599	24,463	5,642	7,265
Product	13,192	13,633	15,091	3,841	3,639
Stock-based compensation(1)	298	124	114	1	116
Total cost of revenues	21,834	30,356	39,668	9,484	11,020
Gross profit	6,470	11,176	16,568	3,495	4,848
Operating expenses:					
Research and development	3,009	2,967	2,191	579	640
Sales and marketing	9,974	8,065	6,008	1,547	1,780
General and administrative	8,161	9,497	8,097	1,851	2,145
Amortization and impairment of intangible assets	991	1,011	444	119	16
Stock-based compensation(1)	1,281	483	112	1	188
Total operating expenses	23,416	22,023	16,852	4,097	4,769
Income (loss) from operations	(16,946)	(10,847)	(284)	(602)	79
Other income (expense), net	(2,965)	(1,925)	(1,396)	(325)	(345)
Net loss	$ (19,911)	$ (12,772)	$ (1,680)	$ (927)	$ (266)
Net loss applicable to common stockholders	$ (20,041)	$ (13,037)	$ (2,006)	$ (1,012)	$ (354)
Basic and diluted net loss per share(2):					
Historical	$ (3,146.16)	$ (1,432.31)	$ (127.62)	$ (74.63)	$ (10.88)
Pro forma (unaudited)			$ (0.13)		$ (0.02)
Shares used to compute basic and diluted net loss per share(2):					
Historical	6	9	16	14	33
Pro forma (unaudited)			12,460		12,477

	As of March 31, 2004	
	Actual	As Adjusted(3)
	(In thousands) (unaudited)	
Balance sheet data:		
Cash and cash equivalents	$ 8,902	$ 64,030
Working capital	829	65,956
Total assets	38,012	93,140
Total debt	15,841	6,169
Redeemable convertible preferred stock	84,367	—
Total stockholders' equity (deficit)	(75,709)	73,458

(1) Please see our consolidated statement of operations on page F-4 and Note 1 to our consolidated financial statements for additional information on stock-based compensation.

(2) Please see Note 1 to our consolidated 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.

(3) The as adjusted column in the balance sheet data reflects the automatic conversion of all of our preferred stock outstanding as of March 31, 2004 into 12,444,294 shares of our common stock in connection with this offering, the sale of 5,500,000 shares of our common stock at an assumed initial public offering price of $13.00 per share, the mid-point of the range on the cover of this prospectus, after deducting the estimated underwriting discounts and commission and the estimated expenses payable by us in connection with this offering, and the repayment of $9.7 million due under our short-term lines of credit and notes payable.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information included in this prospectus, including the consolidated financial statements and the related notes appearing elsewhere in this prospectus, before making an investment decision. If any of the following risks actually occurs, our business, financial condition, results of operations and future prospects would likely be materially and adversely affected. In that event, the market price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Our Business and Industry

If our imaging systems and DIS services are not accepted by physicians or hospitals, we may be unable to develop a sustainable, profitable business.

We expect that substantially all of our revenue in the foreseeable future will be derived from sales of our products in the nuclear imaging market and our leasing services offered through our wholly owned subsidiaries, Digirad Imaging Solutions, Inc. and Digirad Imaging Systems, Inc., which we refer to collectively as DIS. Our solid-state gamma cameras and DIS services represent a new approach in the nuclear imaging market. We began full commercial release of our imaging systems in March 2000 and established DIS in September 2000. Because of the recent commercial introduction of our nuclear imaging systems, we have limited product and brand recognition and our imaging systems have been used by a limited number of physicians and hospitals. Physicians and hospitals may generally be slow to adopt our products and leasing services for a number of reasons, including:

- perceived liability risks generally associated with the use of new technologies for nuclear imaging;
- availability of reimbursement from health care payors for procedures using our system;
- lack of experience with our products and services;
- costs associated with the purchase or lease of our products and services;
- the presence of competing products sold by companies with longer operating histories, more recognizable names and more established distribution networks;
- the introduction or existence of competing products and services or technologies that may be more effective, easier to use or that produce better images; and
- physician and hospital perceptions of our imaging systems as compared to those of competitors.

Our success in the nuclear imaging market depends on whether physicians and hospitals view our imaging systems and DIS services as effective and economically beneficial. We believe that physicians and hospitals will not adopt our imaging systems or lease our DIS services unless they determine, based on experience and other factors, that our imaging systems and DIS services are an attractive alternative to vacuum tube imaging systems. We also believe that recommendations and support of our products and services by influential physicians and other health care providers are essential for market acceptance and adoption. We cannot assure you that physicians or hospitals will adopt or accept our imaging systems or DIS services. If physicians and hospitals do not adopt our imaging systems or DIS services, our operating results and business will be harmed.

We sell our imaging systems and provide our services in a highly competitive industry, and we often compete against large, well-established competitors that have significantly greater financial resources than we have.

The medical device industry, including the market for imaging systems and services, is highly competitive, subject to rapid change and significantly affected by new product introductions and market activities of other industry participants. Our primary competitors with respect to imaging systems include several large medical device manufacturers, including Philips Medical Systems, General Electric Healthcare, Siemens 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, computerized tomography, ultrasound and nuclear medicine. The existing imaging systems sold by our competitors have been in use for a longer time than our products and are more widely recognized and used by physicians and hospitals for nuclear imaging. Many of our competitors and potential competitors enjoy significant competitive advantages over us, including:

- significantly greater name recognition and financial, technical and marketing resources;
- established relationships with healthcare professionals, customers and third-party payors;
- established distribution networks;
- additional lines of products and the ability to offer rebates or bundle products to offer discounts or incentives; and
- greater resources for product development, sales and marketing.

The competitive nature of the nuclear imaging industry has had an impact on the price of our dual-head gamma cameras. For example, for the three months ended March 31, 2004 we experienced a moderate decline in the selling price for our dual-head gamma cameras when compared to the three months period ended March 31, 2003. While we anticipate demand for our dual-head gamma cameras to continue to increase, we believe these pricing pressures will continue to impact our gamma camera product revenue and gross profit.

In providing comprehensive mobile nuclear imaging solutions, we generally compete against small businesses employing traditional vacuum tube cameras that must be transported in large vehicles and cannot be moved in and out of physician offices.

We are aware of certain major medical device companies that are attempting to develop solid-state cameras and we believe these efforts will continue. In addition, we are aware of a privately-held company, Gamma Medica, which is currently marketing a solid-state gamma camera for breast imaging. We do not believe that this camera can be used in a cardiac application. However, we cannot assure you that Gamma Medica will not attempt to modify its existing camera for use in the cardiac segment in the future, or develop another gamma camera for cardiac applications. Because of the size of the potential market, we anticipate that companies will dedicate significant resources to developing competing products and services. Current or future competitors may develop technologies and products that demonstrate better image quality, ease of use or mobility than our imaging systems. Our ability to compete successfully will depend on our ability to develop proprietary products that reach the market in a timely manner, receive adequate reimbursement and are less expensive than alternatives available for the same purpose. If we are unable to compete effectively against our existing and future competitors our sales will decline and our business will be harmed.

Changes in domestic and international legislation, regulation, or coverage and reimbursement policies of third-party payors may adversely impact our ability to market and sell our products and services.

Physicians and hospitals purchasing and using our products rely on adequate third-party payor coverage and reimbursement to maintain their operations. Changes in domestic and international legislation, regulation or coverage and reimbursement policies of third-party payors may adversely affect the demand for our existing and future products and services and may limit our ability to market and sell our products and services on a profitable basis. For example, on December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or the Medicare Modernization Act, which contains a wide variety of changes that impact Medicare reimbursement to physicians and hospitals. We cannot predict what additional changes will be made to such legislation, regulation, or coverage and reimbursement policies, but we believe that future coverage and reimbursement may be subject to increased restrictions both in the United States and in international markets. Additionally, we cannot be certain that under prospective payment systems, or established fee schedule payment formulas, under which healthcare providers may be reimbursed a fixed amount based on the patient's condition or the type of procedure performed, the costs of our products and services will be

justified and incorporated into the overall payment for the procedure. Third-party payors continue to act 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 continued efforts to reduce healthcare costs may result in third-party payors refusing to reimburse patients or healthcare providers for our imaging services or allowing only specific providers to provide imaging services. As a result, sales of our gamma cameras would suffer and we may receive pressure from our customers to terminate or otherwise modify the lease arrangements for our DIS services. Under such circumstances, our business, financial condition and results of operations could be materially adversely affected.

Because our imaging systems and DIS services are not widely diversified, a decrease in sales of our products and leasing services could seriously harm our business.

Our current product and leasing service offerings consist primarily of our line of gamma cameras, including our Cardius-1, Cardius-2, 2020*tc* Imager and SPECTpak PLUS camera systems, each of which is used in the nuclear imaging market segment and all of which utilize the same solid-state technology. In addition, we offer a mobile imaging leasing service through DIS, which includes an imaging system, certified personnel, required licensure and other support for nuclear imaging procedures. As such, our line of products and services is not as diversified as those of some of our competitors. Consequently, if sales of our products or leasing services decline precipitously, our business would be seriously harmed, and it would likely be difficult for us to recover because we do not have the breadth of products or services that would enable us to sustain our business while seeking to develop new types of products or services or other markets for our existing products and services. In addition, because our technical know-how and intellectual property have limited applications, we may be unable to leverage our technical know-how and intellectual property to diversify our products and services or to develop other products or sources of revenue outside of the nuclear imaging market.

Our imaging systems and DIS services may become obsolete, and we may not be able to timely develop new products, product enhancements or services that will be accepted by the market.

Our nuclear imaging system and DIS services may become obsolete or unmarketable if other products or services utilizing new technologies are introduced by our competitors or new industry standards emerge. We cannot assure you that we will be able to successfully develop or market new products and services, or enhancements to our existing products, or that our future products and enhancements will be accepted by our current or potential customers or the third-party payors who financially support many of the procedures performed with our products. Any of these circumstances may cause us to lose customers, disrupt our business operations and harm our product sales and services. To be successful, we will need to enhance our products or services and to design, develop and market new products that successfully respond to competitive developments, all of which may be expensive and time consuming.

The success of any new product offering or enhancement to an existing product will depend on several factors, including our ability to:

- properly identify and anticipate physician and patient needs;
- develop new products or enhancements in a timely manner;
- obtain the necessary regulatory approvals or clearances for new products or product enhancements in a timely manner;
- provide adequate training to users of our products;
- price our products competitively;
- obtain appropriate coverage and receive adequate reimbursement notifications and respond to them in a commercially viable way;
- comply with changing or new regulatory requirements; and
- develop an effective marketing, sales and distribution network.

If we do not develop and obtain regulatory approvals or clearances for new products, services or product enhancements in time to meet market demand, or if there is insufficient demand for these products, services or enhancements, our business, financial condition and results of operations will likely suffer. In addition, even if our customers acquire new products, services or product enhancements we may offer, the revenues from any such products, services or enhancements may not be sufficient to offset the significant costs associated with offering such products, services or enhancements to customers. In addition, any announcements of new products, services or enhancements may cause customers to decline or cancel their purchasing decisions in anticipation of such products, services or enhancements.

If we experience problems with the technologies used in our imaging systems or if delivery of our DIS services are delayed, public perception of us could be harmed and cause us to lose customers and revenue.

Our gamma cameras have only recently been introduced into the marketplace. Most of our cameras currently in use are less than three years old. We have experienced some reliability issues with a prior version of our detector heads. In July 2003, we began selling most of our gamma cameras with a new version of our detector heads that we believe offers increased reliability. In addition, as the period of use of our cameras increases, other significant defects may occur. If significant defects do arise with our gamma cameras, our reputation among physicians and hospitals could be damaged.

Additionally, physicians rely on our DIS services to provide nuclear imaging procedures to their patients on the dates and at the times they have requested. Many factors could prevent us from delivering our DIS services on a timely basis, including weather and the availability of staffing, transportation and necessary supplies. If we are unable to provide physicians or hospitals our DIS services in a timely and effective manner, our reputation among physicians and hospitals could be damaged.

The performance and reliability of our products and services are critical to our reputation and to our ability to achieve market acceptance of those products and services. Widespread or other failures of our cameras and other products to consistently meet the expectations of purchasers or customers that use our DIS services could adversely affect our reputation, our ability to provide our DIS services, our relations with current customers and our business operations. Such failures could also reduce the attractiveness of our products and services to potential customers. Equipment failures could result from any number of causes, including equipment aging, ordinary wear and tear due to regular transportation and relocation, failure to perform routine maintenance and latent hardware or software defects of which we are unaware. Such failures, whether actual or perceived, could adversely affect our business even if we correct the underlying problems.

Our manufacturing operations are highly dependent upon third-party suppliers, making us vulnerable to supply problems and price fluctuations, which could harm our business.

We rely on a limited number of third parties to manufacture and supply certain of the key components of our products. While many of the components used in our products are available from multiple sources, we obtain some components from single sources. For example, key components of the detector heads and the acquisition and control software utilized in our gamma cameras are manufactured or supplied by a single source. To be successful, our contract manufacturers and suppliers must provide us with the components of our systems in requisite quantities, in compliance with regulatory requirements, in accordance with agreed-upon specifications, at acceptable cost and on a timely basis. Segami Corporation, or Segami, has developed image acquisition and processing software for our camera under a non-exclusive license agreement. In the event that Segami attempts to terminate the license agreement, refuses to extend the term of the license or seeks to impose unreasonable pricing or terms, we would have to find an alternative software system to use in our gamma camera. Our reliance on these outside suppliers subjects us to a number of risks that could harm our business, including:

- suppliers may make errors in manufacturing components that could adversely affect the efficacy or safety of our products or cause delays in shipment of our products;

- we may not be able to obtain adequate supply in a timely manner or on commercially reasonable terms;
- we may have difficulty locating and qualifying alternative suppliers for our components;
- once we identify alternative suppliers, we could experience significant delays in production due to the need to evaluate and test the products delivered by alternative suppliers and to obtain regulatory qualification for them;
- we are not a major customer of many of our suppliers, and these suppliers may therefore give other customers' needs higher priority than ours;
- we use some suppliers that are small, privately-held companies, and these suppliers could encounter financial or other difficulties that could cause them to modify or discontinue their operations at any time;
- our suppliers manufacture products for a range of customers, and fluctuations in demand for the products those suppliers manufacture for others may affect their ability to deliver components to us in a timely manner; and
- our suppliers may encounter financial hardships unrelated to our demand for components, which could inhibit their ability to fulfill our orders and meet our requirements.

Any interruption or delay in the supply of components or materials, or our inability to obtain components or materials from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers and cause them to cancel orders or switch to competitive procedures. These events could harm our business and operating results.

We have limited marketing, sales and distribution capabilities, and our efforts in those areas are dependent in part on third parties.

We began commercial production and shipped our first imaging products in 2000, and therefore have limited experience in marketing, selling and distributing our products and services. Additionally, while we have a direct sales team focused on domestic marketing, sales and distribution, we also use four independent distributors in the United States and two independent, international sales distributors to market, sell and distribute our products and services. As a result, we are dependent in part upon the marketing, sales and distribution efforts of our third-party distributors. To date, one of our domestic third-party distributors is permitted to market, sell and distribute competing imaging services and products. Additionally, one of our domestic third-party distributors, as well as one of our international distributors, is generally permitted to market, sell and distribute competing imaging products that are used or refurbished and meet specified age requirements. Our other international distributor is prohibited from promoting or distributing any other gamma camera product, but is not prohibited from offering competing services.

Our future revenue growth will depend in large part on our success in maintaining and expanding our marketing, sales and distribution channels, which will likely be an expensive and time-consuming process. We are highly dependent upon the efforts of our sales force and third-party distributors to increase our revenue. We face intense competition for qualified sales employees and may be unable to hire, train, manage and retain such personnel, which could adversely affect our ability to maintain and expand our marketing, sales and distribution network, which would negatively affect our ability to compete effectively as a distributor of nuclear imaging devices. Additionally, even if we are able to expand our sales force and enter into agreements with additional third-party distributors on commercially reasonable terms, they may not commit the necessary resources to effectively market, sell and distribute our products and services domestically and internationally. If we are unable to maintain and expand our direct and third-party marketing, sales and distribution networks, we may be unable to sell enough of our products and imaging services for our business to be profitable and our financial condition and results of operations will likely suffer accordingly.

If we are unable to successfully operate and manage our manufacturing operations at our new facility, we may experience a decrease in sales.

We recently completed the transition of our manufacturing operations from several separate facilities to a single facility. As we scale-up operations at our new facility, we may encounter unforeseen circumstances, including:

- inability to obtain critical equipment on a timely basis;
- failure to obtain necessary regulatory approvals or operating permits in a timely fashion, if at all;
- shortages of qualified personnel to operate equipment and manage manufacturing operations;
- shortages of key raw materials or component inputs to the manufacturing process; and
- difficulties associated with moving from smaller-scale production to higher volumes.

In addition, we may also experience difficulties in producing sufficient quantities or quality of products or in achieving sufficient quality and manufacturing yield levels. If we are unable to successfully operate and manage our manufacturing operations at our new facility or otherwise fail to meet our manufacturing needs, we may not be able to provide our customers with the quantity or quality of products they require, and we could lose customers and suffer reduced revenues.

We are subject to the financial risks associated with providing services through our DIS business.

There are numerous risks associated with any leasing arrangement, including the possibility that physicians may fail to make the required payments under the terms and provisions of their lease commitments. Our DIS business is also affected by the ability of physicians to pay us, which in turn may be affected by general economic and business conditions and the availability of reimbursement for the physicians. Such circumstances could adversely affect our business and financial condition.

If we are unable to expand our DIS business, our business could be materially harmed.

We plan to grow our DIS business by expanding into several new states, adding new hub locations in states in which we currently operate and increasing hub utilization by adding physician customers and routes. As we undertake this expansion, we will need to hire, train and retain qualified personnel. We cannot assure you that physicians or hospitals in these new markets will accept our imaging products or services. Our expansion into additional domestic markets is subject to inherent risk, including the burden of complying with applicable state regulations, including but not limited to regulations concerning the use, storage, handling and disposal of radioactive materials, the difficulties in obtaining the necessary radioactive licensures and difficulties in staffing and managing operations. Furthermore, physician self-referral laws currently in effect in the State of New York do not allow the conduct of our DIS business as it is currently structured or at all, and we may find the laws of other states in which we do not currently operate to require us to change the structure of our DIS business to operate in such states.

A loss of key executives or failure to attract qualified managers, engineers and imaging technologists could limit our growth and adversely affect our business.

Our success is dependent on the efforts of our key technical, sales and managerial personnel and our ability to retain them, particularly David M. Sheehan, Paul J. Early, Herb Bellucci, Todd P. Clyde, Richard Conwell and Vera P. Pardee. The loss of any one or more of these individuals could place a significant strain on our remaining management team and we may have difficulty replacing any of these individuals. Furthermore, our future growth will depend in part upon our ability to identify, hire and retain additional key personnel, including nuclear imaging technologists, paramedics, nurses, radiation safety officers, engineers, management, sales personnel and other highly skilled personnel. Hiring qualified management and technical personnel will be difficult due to the limited number of qualified candidates. Competition for these types of employees, particularly nuclear imaging technologists and engineers, is intense in the medical imaging field. Given the competition for such qualified personnel, we cannot assure you that we

will be able to continue to attract, hire and retain the personnel necessary to maintain and develop our business. Failure to attract, hire 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, or key person insurance on, any of our employees.

If we choose to acquire new or complementary businesses, products or technologies instead of developing them ourselves, we may be unable to complete those acquisitions or to successfully integrate them in a cost-effective and non-disruptive manner.

Our success depends on our ability to continually enhance and broaden our product and service offerings in response to changing customer demands, competitive pressures and technologies. While we have no current plans or commitments regarding any acquisitions of new or complementary businesses, products or technologies, we may in the future choose to pursue such acquisitions instead of developing those businesses, products or technologies ourselves. We cannot assure you, however, that we would be able to successfully complete any acquisition we choose to pursue, or that we would be able to successfully integrate any acquired business, product or technology into our company in a cost-effective and non-disruptive manner. Furthermore, there is no certainty that we would be able to attract, hire or retain key employees associated with any acquired businesses, products or technologies.

Integrating any acquired businesses, products or technologies could be expensive and time consuming, disrupt our ongoing business and divert the attention and resources of our management. If we are unable to integrate any acquired businesses, products or technologies effectively, our business will likely suffer. Additionally, any amortization of assets or charges resulting from the costs of acquisitions could harm our business and operating results.

We will face additional risks as we expand into international markets.

We have sales distributors for our imaging systems in Canada and Russia and are beginning to build an international sales organization. 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 distributors, physicians or other involved parties in foreign markets will accept our nuclear imaging products, services and business practices. Our international operations will be 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 enforcing agreements and in collecting receivables through the legal systems of foreign countries;
- fluctuating currency exchange rates;
- the possibility that foreign countries may impose additional withholding taxes or otherwise tax our foreign income, impose tariffs or adopt other restrictions on foreign trade;
- changes in political, regulatory, or economic conditions in a country or region;
- our ability to obtain U.S. export licenses and other required export or import licenses or approvals;
- burdens of complying with a wide variety of foreign laws, regulations specific to the delivery of and payment for healthcare services, regulations and licensing requirements relating to the use, storage, handling and disposal of radioactive materials, labor practices; and
- conforming our business model to operate under government-run healthcare systems.

Our manufacturing operations and executive offices will be located at a single facility that may be at risk from fire, earthquakes or other natural or man-made disasters or crises.

Our manufacturing operations and executive offices are located at a single facility in Poway, California, near known fire areas and earthquake fault zones. This facility is located a short distance from the recent wildfires that destroyed many homes and businesses in San Diego County, California. We have taken precautions to safeguard our facilities, including insurance and health and safety protocols. However, any future natural disaster, such as a fire or an earthquake, could cause substantial delays in our operations, damage to or destroy our manufacturing equipment or inventory, and cause us to incur additional expenses. A disaster could significantly harm our business and results of operations. The insurance we maintain against fires, earthquakes and other natural disasters may not be adequate to cover our losses in any particular case.

Additionally, electrical power is vital to our operations and we rely on a continuous power supply to conduct our business. California has experienced significant electrical power shortages and price volatility in recent years, and such shortages and price volatility may occur in the future. In the event of an acute power shortage, the California system operator has on some occasions implemented, and may in the future 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 are exposed to risks relating to product liability, product recalls, property damage and personal injury for which insurance coverage is expensive, limited and potentially inadequate, and our business may be impacted by increased insurance costs.

Our operations entail a number of risks, including risks relating to product liability claims, product recalls, property damage and personal injury. We currently maintain insurance that we believe is adequate with respect to the nature of the risks insured against, including product liability insurance, professional liability insurance, automobile insurance, property insurance, workers compensation insurance and general liability insurance. In many cases such insurance is expensive and difficult to obtain, and no assurance can be given that we will be able to maintain our current insurance or that we will be able to obtain or maintain comparable or additional insurance in the future on reasonable terms, if at all. Additionally, we may be negatively affected by increased costs of insurance, including workers compensation insurance. For example, in October 2003, the Governor of California signed a bill which, if it takes effect, will require California businesses with 50 or more employees either to pay at least 80% of the premiums for a basic individual health insurance package for each of its employees and their families, or to pay a fee into a state pool for the purchase of health insurance for uninsured, low income workers.

Risks Related to Our Financial Results and Need for Financing

We have incurred significant and recurring operating losses since our inception in 1985 and we expect to incur increased operating expenses in the near term.

We have incurred significant net losses since our inception in November 1985, including losses of approximately $19.9 million in 2001, $12.8 million in 2002, $1.7 million in 2003, and $927,000 and $266,000 for the three months ended March 31, 2003 and 2004, respectively. As of March 31, 2004 we had an accumulated deficit of $80.5 million. We expect to incur increased operating expenses in the near term as we, among other things:

- expand our manufacturing operations and DIS business;
- increase marketing, sales and distribution of our current products; and

- conduct research and development to develop next-generation products and to enhance our existing products.

As a result of these activities, we may not be able to achieve profitability. If our revenue grows more slowly than anticipated, or if our operating expenses exceed our expectations, our ability to achieve our development and expansion goals would be adversely affected.

Our quarterly financial results are difficult to predict and are likely to fluctuate significantly from period to period because our business prospects are uncertain and due to the seasonality of our DIS leasing services business.

Our revenue and results of operations at any given time will be primarily based on the following factors, many of which we cannot control:

- physician, healthcare provider and patient acceptance of our products and services;
- demand and pricing of our products and services;
- success and timing of new product offerings, acquisitions, licenses or other significant events by us or our competitors;
- our ability to establish and maintain a productive manufacturing, marketing, sales and distribution force;
- the ability of our suppliers to timely provide us with an adequate supply of necessary components;
- timing and magnitude of our expenditures;
- our ability to reduce our expenses, including our debt service obligations, quickly enough to respond to any declines in revenue;
- regulatory approvals and legislative changes affecting the products we may offer or those of our competitors;
- the effect of competing technological and market developments;
- our addition or termination of research programs or funding support;
- levels of third-party reimbursement for our products and services;
- interruption in the manufacturing or distribution of our products and services; and
- changes in our ability to obtain FDA approval or clearance for our products.

Furthermore, we have experienced seasonality in the leasing services offered by DIS. While our physicians are obligated to pay us for all lease days to which they have committed, our contracts permit some flexibility in scheduling when services are to be performed. This accounts for some of the seasonality of our DIS revenues. For example, our daily services have typically declined from our second fiscal quarter to our third fiscal quarter due to summer holidays and vacation schedules. We have also experienced declining daily services in December due to holidays and in our first quarter due to weather conditions in certain parts of the United States. We cannot predict with certainty the degree to which seasonal circumstances such as the summer slowdown, winter holiday variations and weather conditions may make our revenue unpredictable or lead to fluctuations in our quarterly operating results in the future.

In addition, due to the way that customers in our target markets allocate and spend their budgeted funds for acquisition of our products, a large percentage of our sales of gamma cameras is booked at the end of each quarterly accounting period. As such, a sales delay of only a few days may significantly impact our quarter-to-quarter comparisons.

For these reasons, 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. Accordingly, we may experience significant, unanticipated quarterly losses. Because of these and other factors, our operating results in one or more future quarters may fail to meet the expectations of securities analysts or investors, which could cause our stock price to decline significantly.

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. If orders for our gamma cameras were to be cancelled, or our leasing service customers stopped using us or do not renew their lease agreements with us, our business would be adversely affected. Furthermore, in view of our small customer base, our failure to gain additional customers, the loss of any current customers or a significant reduction in the level of leasing services provided to any one customer could disrupt our business, harm our reputation and adversely affect our sales.

The sales cycle for our gamma cameras is typically lengthy, which may result in significant fluctuations in our revenue.

Our sales efforts for our gamma cameras are dependent on the capital expenditures budgets of the physicians and hospitals to which we market. Often physicians and hospitals require a significant amount of lead time to plan for a major acquisition such as the purchase of our imaging systems. We may spend substantial time, effort and expense long before we actually consummate a sale of our cameras and with no assurance that we will ultimately be successful in achieving any such sales. As a result, we may experience significant fluctuations in our revenues. Furthermore, evaluating and predicting our future sales and operating performance is difficult and may not be as accurate as it could be if we had shorter sales cycles.

Our future capital needs are uncertain and we may need to raise additional funds in the future, and such funds may not be available on acceptable terms, if at all.

We believe that the net proceeds from this offering, together with our current cash, cash equivalents and short-term investments, will be sufficient to meet our projected operating requirements for at least the next 12 months. Our capital requirements will depend on many factors, including:

- the revenue generated by sales of our products and services;
- the costs associated with expanding our manufacturing, marketing, sales and distribution efforts;
- the rate of progress and cost of our research and development activities;
- the costs of obtaining and maintaining FDA and other regulatory clearance of our products and products in development;
- the costs of obtaining and maintaining radioactive materials licenses and radiation safety procedures;
- the effects of competing technological and market developments;
- the number and timing of acquisitions and other strategic transactions; and
- the costs associated with our expansion, if any.

As a result of these factors, we may need to raise additional funds, and we cannot be certain that such funds will be available to us on acceptable terms, if at all. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish potentially valuable rights to our future products or proprietary technologies, or grant licenses on terms that are not favorable to us. If we cannot raise funds on acceptable terms, we may not be able to expand our operations, develop new products, take advantage of future opportunities or respond to competitive pressures or unanticipated customer requirements.

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 and development and manufacturing processes, as well as in the provision of our imaging services. We are subject to federal, state and local regulations governing use, storage, handling and disposal of these materials and waste products. We are currently licensed to handle such materials in all states in which we operate, but there can be no assurances that we will be able to retain those licenses in the future. In addition, we must become licensed in all states in which we plan to expand. Obtaining those additional licenses is an expensive and time consuming process, and in some cases we may not be able to obtain those licenses at all.

Although we believe that our procedures for use, handling, storing and disposing of these materials comply with legally prescribed standards, we cannot completely eliminate the risk of contamination or injury resulting from hazardous materials and we may incur liability as a result of any such contamination or injury. In the event of an accident, we could be held liable for damages or penalized with fines, and the liability could exceed our resources and any applicable insurance.

We have also 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 materially increase in the future.

Compliance with extensive product regulations could be expensive and time consuming, and any failure to comply with those regulations could harm our ability to sell and market our products and imaging services.

U.S. and foreign regulatory agencies, including the FDA, govern the testing, marketing and registration of new medical devices or modifications to medical devices, in addition to regulating manufacturing practices, reporting, labeling and recordkeeping 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 these regulations. Generally, we and our third-party manufacturers are or will be required to:

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

Compliance with the regulations of those agencies may delay or prevent us from introducing new or improved products, which could in turn affect our ability to achieve or maintain profitability. 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 applicable 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 products and technology and could harm our operating results. Furthermore, changes in the applicable governmental regulations could prevent further commercialization of our products and technologies and could 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.

Our products are subject to reporting requirements and recalls even after receiving FDA clearance or approval, which could harm our reputation, business and financial results.

We are subject to medical device reporting regulations that require us to report to FDA or similar governmental bodies in other countries if our products cause or contribute to a death or serious injury or malfunction in a way that would be reasonably likely to contribute to death or serious injury if the malfunction were to recur. In addition, the FDA and similar governmental bodies in other countries have the authority to require the recall of our products in the event of material deficiencies or defects in design or manufacture. A government mandated or voluntary recall by us could occur as a result of component failures, manufacturing errors or design defects, including defects in labeling. Any recall would divert management attention and financial resources and harm our reputation with customers. A recall involving our product could harm the reputation of the product and our company and would be particularly harmful to our business and financial results.

If we fail to obtain, or are significantly delayed in obtaining, FDA clearances or approvals for future products or product enhancements, or if we fail to comply with FDA's Quality System Regulation, our ability to commercially market and distribute our products will suffer.

Our products are subject to rigorous regulation by the FDA, and numerous other federal, state and foreign governmental authorities. In the U.S., the FDA regulates virtually all aspects of a medical device's testing, manufacture, safety, labeling, storage, recordkeeping, reporting, promotion and distribution. Our failure to comply with those regulations could lead to the imposition of administrative or judicial sanctions, including injunctions, suspensions or the loss of regulatory approvals, product recalls, termination of distribution, or product seizures. In the most egregious cases, criminal sanctions or closure of our manufacturing facilities are possible. The process of obtaining regulatory approvals to market a medical device, particularly from the FDA, can be costly and time consuming, and there can be no assurance that such approvals will be granted on a timely basis, if at all. In particular unless exempt, the FDA permits commercial distribution of a new medical device only after the device has received 510(k) clearance or is the subject of an approved Premarket Approval Application, or PMA. The FDA will clear marketing of a medical device through the 510(k) process if it is demonstrated that the new product is substantially equivalent to other 510(k)-cleared products. The PMA approval process is more costly, lengthy and uncertain than the 510(k) clearance process, and must be supported by extensive data, including data from preclinical studies and human clinical trials. Because we cannot assure you that any new products we develop, or any product enhancements, will be subject to the shorter 510(k) clearance process, significant delays in the introduction of any new products or product enhancements may occur. There is no assurance that the FDA will not require a new product or product enhancement go through the lengthy and expensive PMA approval process. Further, pursuant to FDA regulations, we can only market our products for approved uses. If our products are used for purposes other than those approved by the FDA, the FDA could object to such off-label uses.

Our manufacturing processes and those of our third-party manufacturers are required to comply with the FDA's Quality System Regulation, which covers the design, testing, production processes, controls, quality assurance, labeling, packaging, storage and shipping of our devices. In addition, we must engage in extensive recordkeeping and reporting and must make available our manufacturing facility and records for periodic unscheduled inspections by federal, state and foreign agencies, including the FDA. Our or our third-party manufacturers' failure to pass a Quality System Regulation inspection or to comply with these and other applicable regulatory requirements could result in disruption of our operations and manufacturing delays, and a failure to take adequate corrective action could result in, among other things,

withdrawal of our medical device clearances, seizure or recall of our devices, or other civil or criminal enforcement actions.

Foreign governmental authorities that regulate the manufacture and sale of medical devices have become increasingly stringent and, to the extent we now or in the future market and sell our products in foreign countries, we may be subject to rigorous regulation by those foreign governmental authorities. In such circumstances, we would rely significantly on our foreign independent distributors to comply with the varying regulations, and any failures on their part could result in restrictions on the sale of our products in foreign countries.

Modifications to our products may require new 510(k) clearances or premarket approvals, or may require us to cease marketing or recall the modified products until clearances are obtained.

Any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design, or manufacture, requires a new 510(k) clearance or, possibly, approval of a PMA. The FDA requires every manufacturer to make this determination in the first instance, but the FDA may review any manufacturer's decision. The FDA may not agree with our decisions regarding whether new clearances or approvals are necessary. If the FDA requires us to seek 510(k) clearance or PMA for modification of a previously cleared product for which we have concluded that new clearances or approvals are unnecessary, we may be required to cease marketing or to recall the modified product until we obtain clearance or approval, and we may be subject to significant regulatory fines or penalties. Further, our products could be subject to recall if the FDA determines, for any reason, that our products are not safe or effective. Any recall or FDA requirement that we seek additional approvals or clearances could result in delays, fines, costs associated with modification of a product, loss of revenue and potential operating restrictions imposed by the FDA.

We will spend considerable time and money complying with federal, state and foreign 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 and foreign countries 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 knowingly and willfully 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;

- other Medicare laws and regulations that prescribe the requirements for coverage and payment for services performed by us and our DIS customers, including the amount of such payment;

- 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, or HIPAA, which prohibits executing a scheme to defraud any healthcare benefit program, including private payors and, further, requires us to comply with standards regarding the privacy and security of individually identifiable health information and conduct certain electronic transactions using standardized code sets. In addition, regulations have been issued under HIPAA that will require us to comply with additional security regulations by April 2005 and to adopt unique health identifiers for use in filing and processing healthcare claims and other transactions by May 2007;

- 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 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 a direct or indirect financial relationship, including 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 manufacture, labeling, marketing, distribution and sale of prescription drugs and medical devices;

- state and foreign law equivalents of the foregoing;

- federal and state radioactive materials laws, which govern the procurement, use, transfer and storage of radioactive materials;

- state food and drug laws, pharmacy acts and state pharmacy board regulations, which govern the sale, distribution, use, administration and prescribing of prescription drugs;

- state laws that prohibit the practice of medicine by non-physicians and fee-splitting arrangements between physicians and non-physicians, as well as state law equivalents to the federal Medicare and Medicaid Anti-Kickback Law and the Stark Law, which may not be limited to government reimbursed items or services; and

- federal laws and regulations that permit physicians to bill and receive payment for certain diagnostic tests under the Medicare Physician Fee Schedule only if certain conditions are satisfied, including the requirement that the physician personally perform, or adequately supervise the performance of, the test using equipment they own or lease, and that prohibit physicians from marking up the cost of tests they "purchase," rather than perform or supervise, for Medicare patients.

We implemented a compliance program in 2002 to help assure that we remain in compliance with these laws. Like most companies with active and effective compliance programs, we occasionally discover compliance concerns. For example, we have discovered certain isolated arrangements that we entered into in good faith but that, upon review by our compliance personnel, raised some compliance concerns under these laws. In accordance with our compliance program, we took immediate remedial steps. We cannot assure you that these remedial steps will insulate us from liability associated with these isolated arrangements.

If our past or present operations are found to be in violation of any of the laws described above or the other governmental regulations to which we or our customers are subject, we may be subject to the applicable penalty associated with the violation, including civil and criminal penalties, damages, fines, exclusion from the Medicare and Medicaid programs and the curtailment or restructuring of our operations. Similarly, if our customers are found non-compliant with applicable laws, they may be subject to sanctions, which could also have a negative impact on us. In addition, if we are required to obtain permits or licensure under these laws that we do not already possess, we may become subject to substantial additional regulation or incur significant expense. 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, and additional legal or regulatory change. 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, and how they apply to our operations and activities, see "Business—Government Regulations."

Legislative or regulatory reform of the healthcare system may affect our ability to sell our products profitably.

In both the United States and certain other foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could impact our ability to sell our products and services profitably. In the United States, federal and state lawmakers regularly propose and, at times, enact new legislation establishing significant changes in the healthcare system. Recently, President Bush signed into law the Medicare Modernization Act, which contains a wide variety of reforms that impact Medicare reimbursements to hospitals and physicians including changes to Medicare payment methodologies for radiopharmaceuticals and other drugs dispensed by hospital outpatient departments and for drugs dispensed by physician offices and independent diagnostic testing facilities. These changes reduced payment amounts for some of the drugs used in conjunction with our imaging procedures, although the physician fee schedule payment rates applicable to nuclear cardiology increased slightly. Downward changes to Medicare reimbursement rates may adversely impact reimbursement to customers or potential customers that use or could use our cameras and services. We cannot predict the full impact that this new legislation will have nor whether new federal legislation will be enacted in the future. The potential for adoption of healthcare reform proposals on a state-by-state basis could require us to develop state-specific marketing and sales approaches. In addition, we may experience pricing pressures in connection with the sale of our products and services due to additional legislative proposals or healthcare reform initiatives. Our results of operations and our business could therefore be adversely affected by future healthcare reforms.

The impact of regulatory changes could have a negative impact on camera sales to and leases with hospitals desiring to use our cameras and services in their outpatient facilities.

In order for hospitals to receive certain payments for their outpatient facilities as hospital outpatient services, including services that utilize our products, these services must be furnished in a "provider-based" organization or facility or be covered services furnished "under arrangement" with the hospital. Failure to meet these requirements may result in reduced payments to the hospitals for their services. The Medicare program has published and revised rules establishing criteria for classifying a facility as "provider-based" or a service as furnished "under arrangement." These rules require an analysis of the facts and circumstances surrounding the delivery by a hospital of a particular service, and hospitals that use our products or DIS services in their outpatient facilities will need to determine if they meet the applicable "provider-based" or "under arrangement" requirements. Hospitals that cannot obtain sufficient payments for these services may not purchase a camera from us or enter into arrangements with us for provision of services.

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 cameras 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 in nine states and are seeking such enrollment by Medicare contractors in one additional state. 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.

Audits or denials of our claims, or claims submitted by our DIS customers, by government agencies or contractors could reduce our revenues or profits and expose us to claims.

Under our "mixed bill" model, we submit claims directly to and receive payments directly from the Medicare program. Therefore, we are subject to extensive government regulation, including requirements for maintaining certain documentation to support our claims. Government agencies and Medicare contractors also may conduct inspections or surveys of our facilities, payment reviews and other audits of our claims and operations. For example, as part of a national audit conducted pursuant to the 2003 work plan, the Office of the Inspector General of the U.S. Department of Health and Human Services, or the OIG, conducted a review of one of our independent diagnostic testing facilities in early 2003 to review the appropriateness of Medicare payments received. This audit was concluded without any action being taken by the OIG. While we believe this audit will have no impact on us, we cannot assure you that the OIG may not take some follow-up action. We may be subject to investigations, payment reviews and audits and cannot assure you that such scrutiny will not result in material delays in payment, as well as material recoupments or denials, which could reduce our revenue or profits. Our DIS customers also submit claims to Medicare and other third-party payors, are subject to the same types of regulation and scrutiny, and may experience the same types of problems. This could adversely affect our ability to market our leases and services and to maintain existing contracts.

Risks Related to Our Intellectual Property and Potential Litigation

Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain.

Our success depends significantly on our ability to protect our proprietary rights to the technologies used in our products. We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws, and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. Our pending U.S. and foreign patent applications, which include claims to material aspects of our products and procedures that are not currently protected by issued patents, may not issue as patents in a form that will be advantageous to us. Any patents we have obtained or do obtain may be challenged by re-examination or otherwise invalidated. Both the patent application process and the process of managing patent disputes can be time consuming and expensive. Competitors may attempt to challenge or invalidate our patents, or may be able to design alternative techniques or devices that avoid infringement of our patents, or develop products with functionalities that are comparable to ours. Although we have taken steps to protect our intellectual property and proprietary technology, including entering into confidentiality agreements and intellectual property assignment agreements with our employees, consultants, advisors and corporate partners, such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. Furthermore, the laws of some foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States.

In the event a competitor infringes upon our patent or other intellectual property rights, litigation to enforce our intellectual property rights or to defend our patents against challenge, even if successful, could be expensive and time consuming and could require significant time and attention from our management. We may not have sufficient resources to enforce our intellectual property rights or to defend our patents against challenges from others.

We have entered into a royalty-bearing license for one U.S. patent with a third-party for use in nuclear imaging, which license is co-exclusive with the U.S. government. We do not believe that our current products implement the licensed patent; however, the licensor does not agree. We are currently negotiating to amend the license to resolve our dispute with the licensor. If we were to terminate the license, the licensor or subsequent licensee may allege that our current product infringes the patent, or such third-party licensee may develop and commercialize a competitive photodiode for use in gamma cameras.

The medical device industry is characterized by patent litigation and we could become subject to litigation that could be costly, result in the diversion of our management's time and efforts, and require us to pay damages.

The medical device industry is characterized by extensive litigation and administrative proceedings over patent and other intellectual property rights. Whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. Our competitors may assert that our products, their components or the methods we employ in the use of our products are covered by U.S. or foreign patents held by them. In addition, they may claim that their patents have priority over ours because their patents were filed or invented earlier. Because patent applications can take many years to issue, there may be applications now pending of which we are unaware, which may later result in issued patents that our products may infringe. There could also be existing patents that one or more components of our products may be infringing of which we are unaware. As the number of participants in our industry increases, the possibility of patent infringement claims against us also increases.

Any litigation or claims against us may cause us to incur substantial costs, could place a significant strain on our financial resources, divert the attention of our management from our core business and harm our reputation. If the relevant patents were upheld as valid and enforceable and we were found to be inadvertently infringing, we could be required to pay substantial damages and/or royalties and could be prevented from selling our products unless we could obtain a license or were able to redesign our system to avoid infringement. Any such license may not be available on reasonable terms, if at all. If we fail to obtain any required licenses or make any necessary changes to our products or technologies, we may be unable to commercialize one or more of our products.

We rely significantly on a license agreement with Segami Corporation for the imaging acquisition and processing software for our digital gamma camera, and the loss of the license could result in delivery delays, loss of customers and loss of revenue.

Segami Corporation, or Segami, has developed image acquisition and processing software for our camera under a non-exclusive license agreement. In the event that Segami attempts to terminate the license agreement, refuses to extend the term of the license or seeks to impose unreasonable pricing or terms, we would have to find an alternative software system to use in our gamma camera. To our knowledge, there are a limited number of companies that would be able to develop and implement a software system similar to what we use in our gamma camera. As a result, in the event that we were unable to continue to use the software under the license from Segami, we could have delays in the production of our gamma camera as we attempted to find a substitute software provider. Furthermore, we cannot guarantee that alternative software providers would be able to meet our requirements or that their software would be available to us at favorable prices, if at all. To the extent we were unable to find an alternative source for the software, we may have to develop our own software system. We cannot guarantee that we could internally develop such a software system or that such efforts would not divert resources away from the development of other features of our camera. As a result, locating an alternative software

system or developing our own software system could interrupt the manufacture and delivery of our products for an extended period of time and may cause the loss of customers and revenue.

We may be subject to damages resulting from claims that we, or our employees, have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees were previously employed at other medical device companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that we or our employees have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying money damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hinder or preclude our ability to commercialize our products, which could severely harm our business.

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 coverage.

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 device industry has been subject to significant products liability litigation. We may incur significant liability in the event of any such litigation, regardless of the merit of the action. 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. Finally, even a meritless or unsuccessful product liability claim could harm our reputation in the industry, lead to significant legal fees and could result in the diversion of management's attention from managing our business.

We may be subject to lawsuits and actions brought by our employees.

We may from time to time be subject to employment claims or disputes. Recently one former and three present employees have retained counsel and have claimed that they are due overtime pay because of an alleged misclassification of their positions as non-exempt rather than exempt employees. These employees have claimed damages equal to back pay of up to thirty days, liquidated damages of twice the amount of overtime pay found due and attorneys' fees. We deny any wrongdoing and intend to defend against these claims vigorously. However, we cannot assure you that we will be successful, or that additional former or present employees may not join in any such action. Any employment claims could significantly divert our management's time and attention and could materially affect our business.

Risks Related to the Securities Markets and Ownership of Our Common Stock

There has been no prior public market for our common stock and an active trading market may not develop.

Prior to this offering, there has been no public market for our common stock. An active public trading market for our common stock may not develop or be sustained after the offering. We will negotiate and determine the initial public offering price with representatives of the underwriters and this price may not be indicative of prices that will prevail in the trading market. As a result, you may not be able to sell your shares of common stock at or above the offering price. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other businesses, products or technologies by using our shares as consideration.

Future sales of our common stock may cause our stock price to decline.

Our current stockholders hold a substantial number of shares of our common stock that they will be able to sell in the public market in the near future. Significant portions of these shares are held by a small number of stockholders. Sales by our current stockholders of a substantial number of shares after this offering, or the expectation that such sale may occur, could significantly reduce the market price of our common stock. Moreover, after this offering, the holders of approximately 12,498,878 shares of common stock, including shares issued upon conversion of our preferred stock and shares issued upon the exercise of certain of our warrants, will have rights, subject to some conditions, to require us to file registration statements to permit the resale of their shares in the public market or to include their shares in registration statements that we may file for ourselves or other stockholders. Although the holders of most of our outstanding capital stock have agreed with the underwriters of this offering to be bound by a 180-day lock-up agreement that prohibits these holders from selling or transferring their stock, other than in specific circumstances, Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc., at their discretion, can waive the restrictions of the lock-up agreement at an earlier time without prior notice or announcement and allow our stockholders to sell their shares of our common stock in the public market. If the restrictions of the lock-up agreement are waived, shares of our common stock will be available for sale into the market, subject only to applicable securities rules and regulations, which may cause our stock price to decline.

We also intend to register all common stock that we may issue under our 2004 Stock Incentive Plan and 2004 Non-Employee Director Stock Option Program. Once we register these shares, they can be freely sold in the public market upon issuance, subject to restrictions under the securities laws and the lock-up agreements described above. If any of these stockholders cause a large number of securities to be sold in the public market, the sales could reduce the trading price of our common stock. These sales also could impede our ability to raise future capital.

Our stock price may be volatile, and you may lose all or a substantial part of your investment.

Following this offering, the market price for our common stock is likely to be volatile, in part because our shares have not been traded publicly. In addition, the market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

- volume and timing of orders for our products and services;
- the introduction of new products, product enhancements, services or technologies by us or our competitors;
- quarterly variations in our or our competitors' results of operations;
- conditions or trends in the medical device industry and the imaging service industry;
- disputes or other developments with respect to intellectual property rights;
- our ability to develop, obtain regulatory clearance for, and market, new and enhanced products on a timely basis;
- product liability claims or other litigation;
- additions or departures of key personnel;
- sales of large blocks of our common stock, including sales by our executive officers and directors;
- changes in governmental regulations or in the status of our regulatory approvals or applications;
- changes in the availability of third-party reimbursement in the United States or other countries;
- changes in earnings estimates or recommendations by securities analysts; and

- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change in control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.

Our restated certificate of incorporation and restated bylaws contain provisions that may delay or prevent a change in control, discourage bids at a premium over the market price of our common stock and adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. These provisions include:

- prohibiting our stockholders from calling a special meeting of stockholders unless they hold not less than 20% of the total number of votes to be cast at such a meeting;

- permitting the issuance of additional shares of our common stock or preferred stock without stockholder approval;

- prohibiting our stockholders from making certain changes to our restated certificate of incorporation or restated bylaws except with $66^{2}/_{3}\%$ stockholder approval; and

- requiring advance notice for raising matters of business or making nominations at stockholders' meetings.

We are also subject to provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for five years unless the holder's acquisition of our stock was approved in advance by our board of directors. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirors to negotiate with our board of directors, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

We may become involved in securities class action litigation that could divert management's attention and harm our business.

The stock market in general, and the Nasdaq National Market and the market for medical device companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the companies in those markets. In addition to our performance, these broad market and industry factors may materially 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 particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation often is expensive and diverts management's attention and resources, which could materially harm our financial condition and results of operations.

As a new investor, you will experience immediate and substantial dilution as a result of this offering and future equity issuances and, as a result of such dilution, our stock price could decline.

The initial public offering price will be substantially higher than the pro forma net tangible book value per share of our outstanding common stock. As a result, investors purchasing common stock in this offering will incur immediate dilution of $8.95 per share. This dilution is due in large part to earlier investors in our company having paid substantially less than the initial public offering price when they purchased their shares. Investors who purchase shares of common stock in this offering will contribute approximately 46% of the total amount we have raised to fund our operations but will own only

approximately 31% of our common stock. We believe that the net proceeds from this offering, together with our current cash, cash equivalents and short-term investments, will be sufficient to meet our projected operating requirements for at least the next 12 months. Because we may require additional funds to develop new products and continue to expand our business, however, we may conduct substantial future offerings of equity securities. The exercise of outstanding options and warrants and future equity issuances, including future public offerings or future private placements of equity securities and any additional shares issued in connection with acquisitions, will result in further dilution to investors.

If our officers, directors and principal stockholders choose to act together, they may be able to control our management and operations, acting in their best interests and not in the best interests of other stockholders.

After this offering, our officers, directors and holders of 5% or more of our outstanding common stock will beneficially own approximately 36.4% of our common stock, after giving effect to the conversion of all outstanding shares of our preferred stock, but assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options or warrants. As a result, these stockholders, acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. The interests of this group of stockholders may not always coincide with our interests or the interests of other stockholders, and they may act in a manner that advances their best interests and not necessarily those of other stockholders. As a result of their actions or inactions our stock price may decline.

Our management team may invest or spend the proceeds of this offering in ways with which you may not agree or in ways which may not yield a return.

Our management will have considerable discretion in the application of the net proceeds of this offering. We expect to use a majority of the net proceeds from this offering to manufacture and market our gamma cameras, build our sales and marketing capabilities, expand our DIS business and repay outstanding lines of credit and notes payable of approximately $9.7 million as of March 31, 2004. To a lesser extent, we anticipate using the remaining net proceeds of this offering for further research and development relating to our existing products and new product opportunities, to finance regulatory approval activities and for general corporate purposes. We may also use a portion of the net proceeds of this offering to acquire or invest in complementary businesses, products, or technologies, or to obtain the right to use such complementary technologies, although we are not currently involved in any negotiations and have no commitments with respect to any such transactions. We cannot specify with certainty how we will use the net proceeds of this offering or our existing cash balance. The net proceeds may be used for corporate purposes that do not increase our operating results or market value. Until the net proceeds are used, we plan to invest such proceeds of this offering in short- and medium-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government. These investments may not produce income or maintain their value.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Use of Proceeds" and "Business." In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" and similar expressions intended to identify forward-looking statements.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in this prospectus in greater detail under the heading "Risk Factors." Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $64.8 million, based upon an assumed initial public offering price of $13.00 per share, the midpoint of the range on the cover of this prospectus, and after deducting estimated underwriting discounts and commissions and offering expenses. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be approximately $74.8 million.

We expect to use a majority of the net proceeds of this offering to manufacture and market our gamma cameras, build our sales and marketing capabilities, expand our DIS business and repay outstanding lines of credit and notes payable of approximately $9.7 million.

To a lesser extent, we anticipate using the remaining net proceeds of this offering:

- for further research and development relating to our existing products and new product opportunities and to finance regulatory approval activities; and
- for general corporate purposes.

In addition, we may use a portion of the net proceeds from this offering to acquire products, technologies or businesses that are complementary to our own, but we currently have no commitments or agreements relating to any of these types of transactions.

Of the approximately $9.7 million of net proceeds that we intend to use to repay outstanding lines of credit and notes payable, we will use approximately $4.7 million to repay in full our outstanding balance as of March 31, 2004 under our secured credit facility with Silicon Valley Bank. The secured credit facility may be used to borrow against accounts receivable and fixed assets and our outstanding balance matures in October 2004. The secured credit facility bears an interest rate equal to the lender's prime rate, plus 1.75% per annum, but in no event less than 5.75%.

Additionally, of the approximately $9.7 million of net proceeds that we intend to use to repay outstanding lines of credit and notes payable, we will use approximately $4.5 million to repay in full our outstanding balance as of March 31, 2004 under our credit facility with GE Healthcare Financial Services. The total amount outstanding under the line of credit matures in December 2004 and the interest rate under such agreement is the greater of the lender's prime rate plus 1.25% per annum, or 6%.

Furthermore, of the approximately $9.7 million of net proceeds that we intend to use to repay outstanding lines of credit and notes payable, we intend to repay the principal amount outstanding under notes payable held by two of our stockholders which matures within 60 days of the completion of this offering. As of March 31, 2004, the outstanding principal amount under these notes was approximately $490,000 and the notes bear an interest rate of 6.35% per year. We may also enter into a similar agreement to repay the principal amount outstanding under a note held by another stockholder. As of March 31, 2004, the outstanding principal amount under such note, which bears an interest rate of 6.35% per year, was approximately $245,000.

As of the date of this prospectus, we cannot specify with certainty all of the particular uses for the net proceeds to be received upon the completion of this offering. The amount and timing of our expenditures will depend on several factors, including the amount of revenue generated from our operations, the progress of our commercialization efforts, and the amount of cash used in our operations. Accordingly, our management will have broad discretion in the application of the net proceeds and investors will be relying on the judgment of our management regarding the application of the proceeds of this offering. We reserve the right to change the use of these proceeds as a result of certain contingencies such as the results of our commercialization efforts, competitive developments, opportunities to acquire products, technologies or businesses and other factors.

Pending the uses described above, we plan to invest the net proceeds of this offering in short- and medium-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support operations and finance the growth and development of our business and do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our board of directors.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2004:

- on an actual basis; and
- on an as adjusted basis to give effect to (1) the automatic conversion of all shares of preferred stock outstanding as of March 31, 2004 into 12,444,294 shares of common stock upon completion of this offering, (2) the filing of our restated certificate of incorporation, which provides for authorized capital stock of 150,000,000 shares of common stock and 10,000,000 shares of preferred stock, (3) the sale by us of 5,500,000 shares of our common stock in this offering at an assumed initial public offering price of $13.00 per share, the midpoint of the range on the cover of this prospectus, and the receipt of the estimated net proceeds therefrom, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us and (4) the repayment of $9.7 million of outstanding short-term lines of credit and notes payable.

You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and accompanying notes included elsewhere in this prospectus.

	As of March 31, 2004	
	Actual	As Adjusted
	(In thousands, except share and per share amount)	
Cash and cash equivalents	$ 8,902	$ 64,030
Total debt:		
Lines of credit	$ 9,182	$ —
Long-term debt	5,924	5,924
Notes payable to stockholders	735	245
	15,841	6,169
Redeemable convertible preferred stock, $0.000001 par value:		
46,023,000 shares authorized, 43,555,313 shares issued and outstanding, actual; no shares issued and outstanding, as adjusted	84,367	—
Stockholders' equity (deficit):		
Preferred stock, $0.0001 par value: 10,000,000 shares authorized and no shares issued and outstanding, as adjusted	—	—
Common stock, $0.001 par value: 53,000,000 shares authorized, 54,352 shares issued and outstanding, actual; $0.0001 par value: 150,000,000 shares authorized, 17,998,646 shares issued and outstanding, as adjusted	—	2
Additional paid in capital	6,315	155,480
Deferred compensation	(1,489)	(1,489)
Accumulated deficit	(80,535)	(80,535)
Total stockholders' equity (deficit)	(75,709)	73,458
Total capitalization	$ 24,499	$ 79,627

The number of shares in the table above excludes, as of March 31, 2004:

- 1,581,519 shares of our common stock subject to outstanding options under our 1991 Stock Option Program, our 1997 Stock Option/Stock Issuance Plan and our 1998 Stock Option/Stock Issuance Plan, having a weighted average exercise price of $2.42 per share;

- 58,904 shares of our common stock available for future issuance under our 1991 Stock Option Program, our 1997 Stock Option/Stock Issuance Plan and our 1998 Stock Option/Stock Issuance Plan; and

- 63,971 shares of our common stock issuable upon exercise of outstanding warrants (including warrants to purchase preferred stock that are convertible into common stock), having a weighted average exercise price of $33.39 per share.

A 1-for-3.5 reverse stock split of our common stock was approved by our stockholders on April 30, 2004. All share amounts in this prospectus have been adjusted to give effect to this stock split.

DILUTION

As of March 31, 2004, we had a negative net tangible book value of $(76.2) million, or $(1,402.47) per share of common stock, not taking into account the conversion of our outstanding preferred stock. Net tangible book value per share is equal to our total tangible assets (total assets less intangible assets) less total liabilities (including redeemable convertible preferred stock), divided by the number of shares of our outstanding common stock. Our pro forma net tangible book value as of March 31, 2004 was approximately $8.1 million, or $0.65 per share of common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the pro forma number of shares of common stock outstanding as of March 31, 2004. Our pro forma net tangible book value and pro forma net tangible book value per share amounts give effect to the conversion of all outstanding shares of our convertible preferred stock into shares of common stock.

Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma net tangible book value per share of common stock immediately after the completion of this offering. After giving effect to our sale of 5,500,000 shares of common stock in this offering at an assumed initial public offering price of $13.00 per share, the midpoint of the range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and offering expenses payable by us, our adjusted pro forma net tangible book value as of March 31, 2004 would have been $72.9 million, or $4.05 per share. This amount represents an immediate increase in pro forma net tangible book value of $3.40 per share to our existing stockholders and an immediate dilution in pro forma net tangible book value of $8.95 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share			$ 13.00
Net tangible book value per share at March 31, 2004	$	(1,402.47)	
Pro forma increase in tangible book value attributable to conversion of convertible preferred stock	$	1,403.12	
Pro forma net tangible book value per share as of March 31, 2004	$	0.65	
Increase in pro forma net tangible book value per share attributable to new investors	$	3.40	
Pro forma as adjusted net tangible book value per share after this offering			4.05
Dilution per share to new investors			$ 8.95

If the underwriters exercise their over-allotment option to purchase additional shares in this offering, our adjusted pro forma net tangible book value at March 31, 2004 will be $82.9 million, or $4.40 per share, representing an immediate increase in pro forma net tangible book value of $3.75 per share to our existing stockholders and an immediate dilution in pro forma net tangible book value of $8.60 per share to new investors purchasing shares in this offering.

The following table summarizes, on a pro forma basis as of March 31, 2004, after giving effect to the conversion of all outstanding shares of our convertible preferred stock into common stock, 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, based on an assumed initial public offering price of $13.00 per share, the midpoint of the range set forth on the cover page of this prospectus,

before deducting estimated underwriting discounts and commissions and offering expenses payable by us (consideration in millions):

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price Per Share
Existing stockholders	12,498,646	69%	$ 85.3	54%	$ 6.83
New investors	5,500,000	31	71.5	46	13.00
Total	17,998,646	100.0%	$ 156.8	100.0%	

If the underwriters exercise their over-allotment option in full, our existing stockholders would own 66% and our new investors would own 34% of the total number of shares of our common stock outstanding after this offering.

The above discussion and tables assume no exercise of any stock options or warrants outstanding as of March 31, 2004. As of March 31, 2004, there were:

- 1,581,519 shares of our common stock subject to outstanding options under our 1991 Stock Option Program, our 1997 Stock Option/Stock Issuance Plan and our 1998 Stock Option/Stock Issuance Plan, having a weighted average exercise price of $2.42 per share;
- 58,904 shares of our common stock available for future issuance under our 1991 Stock Option Program, our 1997 Stock Option/Stock Issuance Plan and our 1998 Stock Option/Stock Issuance Plan; and
- 63,971 shares of our common stock issuable upon exercise of outstanding warrants (including warrants to purchase preferred stock that are convertible into common stock), having a weighted average exercise price of $33.39 per share.

After this offering and assuming the exercise of all in-the-money stock options and warrants outstanding as of March 31, 2004, our pro forma net tangible book value as of March 31, 2004 would be $3.83 per share, representing an immediate increase in pro forma net tangible book value of $3.18 per share to existing stockholders and an immediate dilution in pro forma net tangible book value of $9.17 per share to new investors.

The following table summarizes, on a pro forma basis as of March 31, 2004, after giving effect to the conversion of all outstanding shares of our convertible preferred stock into common stock and the exercise of all outstanding in-the-money options and warrants, 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, based on an assumed initial public offering price of $13.00 per share, the midpoint of the range set forth on the cover page of this prospectus, before deducting estimated underwriting discounts and commissions and offering expenses payable by us (consideration in millions):

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price Per Share
Existing stockholders	12,498,646	64%	$ 85.3	54%	$ 6.83
Shares subject to options and warrants	1,641,310	8	2.3	1	1.41
New investors	5,500,000	28	71.5	45	13.00
Total	19,639,956	100%	$ 159.1	100%	

In April 2004, our board of directors approved, effective upon the completion of this offering, our 2004 Stock Incentive Plan, under which 1,400,000 shares have been reserved for future issuance. To the extent that any outstanding options or warrants are exercised or shares acquired, there will be further dilution to new investors.

In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statement of operations data for the years ended December 31, 2001, 2002 and 2003 and the selected balance sheet data as of December 31, 2002 and 2003, are derived from the audited financial statements for such years and as of such dates, which are included elsewhere in this prospectus. The selected consolidated statement of operations data for the years ended December 31, 1999 and 2000, and the selected balance sheet data as of December 31, 1999, 2000 and 2001, are derived from audited financial statements, which have been audited by Ernst & Young LLP, our independent auditors, for such years and as of such dates, which are not included in this prospectus. The selected consolidated statements of operations data for the three months ended March 31, 2003 and 2004 and the selected balance sheet data as of March 31, 2004 are derived from our unaudited financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements include, in the opinion of management, all adjustments, consisting only of normal, recurring adjustments, that management considers necessary for a fair statement of the results of those periods. Historical results are not necessarily indicative of future results. The following selected financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus. The selected financial data in this section is not intended to replace the financial statements.

	Years Ended December 31,					Three Months Ended March 31,	
Statement of Operations Data:	**1999**	**2000**	**2001**	**2002**	**2003**	**2003**	**2004**
	(In thousands, except per share data amounts)						
Revenues:							
DIS	$ —	$ 1,260	$ 10,239	$ 23,005	$ 34,848	$ 7,503	$ 10,407
Product	284	5,815	18,065	18,527	21,388	5,476	5,461
Total revenues	284	7,075	28,304	41,532	56,236	12,979	15,868
Cost of revenues:							
DIS	—	839	8,344	16,599	24,463	5,642	7,265
Product	265	9,834	13,192	13,633	15,091	3,841	3,639
Stock-based compensation	—	65	298	124	114	1	116
Total cost of revenues	265	10,738	21,834	30,356	39,668	9,484	11,020
Gross profit (loss)	19	(3,663)	6,470	11,176	16,568	3,495	4,848
Operating expenses:							
Research and development	10,063	2,372	3,009	2,967	2,191	579	640
Sales and marketing	1,455	3,586	9,974	8,065	6,008	1,547	1,780
General and administrative	1,967	2,878	8,161	9,497	8,097	1,851	2,145
Amortization and impairment of intangible assets	—	194	991	1,011	444	119	16
Stock-based compensation	—	246	1,281	483	112	1	188
Total operating expenses	13,485	9,276	23,416	22,023	16,852	4,097	4,769
Income (loss) from operations	(13,466)	(12,939)	(16,946)	(10,847)	(284)	(602)	79
Other income (expense), net	274	(537)	(2,965)	(1,925)	(1,396)	(325)	(345)
Net loss	$ (13,192)	$ (13,476)	$ (19,911)	$ (12,772)	$ (1,680)	$ (927)	$ (266)
Net loss applicable to common stockholders	$ (13,192)	$ (13,524)	$ (20,041)	$ (13,037)	$ (2,006)	$ (1,012)	$ (354)
Basic and diluted net loss per share(1):							
Historical	$ (2,731.92)	$ (2,527.80)	$ (3,146.16)	$ (1,432.31)	$ (127.62)	$ (74.63)	$ (10.88)
Pro forma (unaudited)					$ (0.13)		$ (0.02)
Shares used to compute basic and diluted net loss per share(1):							
Historical	5	5	6	9	16	14	33
Pro forma (unaudited)					12,460		12,477
The composition of stock-based compensation is as follows:							
Cost of product revenue		$ 54	$ 200	$ 72	$ 83	$ —	$ 55
Cost of DIS revenue		10	98	52	31	1	61
Research and development		6	96	61	8	—	28
Sales and marketing		51	541	228	18	1	45
General and administrative		190	644	194	86	—	115
		$ 311	$ 1,579	$ 607	$ 226	$ 2	$ 304

	As of December 31,					As of March 31, 2004
	1999	2000	2001	2002	2003	
	(In thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 2,626	$ 6,555	$ 1,967	$ 6,988	$ 7,681	$ 8,902
Working capital	801	5,481	(1,668)	3,781	2,578	829
Total assets	5,699	23,050	29,922	33,119	35,159	38,012
Total debt	2,570	8,614	14,469	13,932	16,441	15,841
Redeemable convertible preferred stock	32,259	52,255	66,531	83,952	84,278	84,367
Total stockholders' equity (deficit)	(31,050)	(43,479)	(61,835)	(73,928)	(75,703)	(75,709)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes appearing at the end of this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a leader in the development, manufacture and distribution of solid-state medical imaging products and services. We were the first company to develop and commercialize a solid-state medical gamma camera for the detection of cardiovascular disease and other medical conditions. Our high performance imaging systems are mobile and provide enhanced operability and reliability and improved patient comfort and utilization when compared to traditional vacuum tube cameras. The cameras and accompanying equipment fit easily into spaces as small as seven feet by eight feet and facilitate the delivery of nuclear medicine procedures directly in a physician's office, an outpatient hospital setting or within multiple departments of a hospital. As of March 31, 2004, we had an installed base of 326 gamma cameras, over 95% of which were in the United States, including 59 cameras operated by our wholly-owned subsidiaries, Digirad Imaging Solutions, Inc. and Digirad Imaging Systems, Inc., which we refer to collectively as DIS.

According to industry reports, the growth rates in 2002 for procedures performed in physician offices was approximately 44% and in hospitals was approximately 6%. We believe this trend is driven by the desire of cardiologists to control their patients' diagnosis and treatment and to generate revenue that would otherwise be lost if the patient were referred to a hospital or imaging center. The mobile feature of our technology also provides us with a significant advantage in the delivery of nuclear cardiology imaging services. Through DIS, we offer FlexImaging, our mobile and comprehensive leasing service for physicians who wish to perform nuclear cardiology and nuclear medicine procedures in their offices, but do not have the patient volume, capital or personnel to justify purchasing an imaging system. DIS is currently offered in 17 states and the District of Columbia. Physicians enter into annual contracts for imaging services delivered on a per-day basis. Our annual lease contracts typically provide for one day of service per week. We sell our imaging systems to physician practices, outpatient clinics and hospitals primarily in the United States and have sold a limited number of imaging systems internationally. Our product revenue consists of sales of our solid-state gamma cameras, custom designed chairs and accessories, such as printers, viewing workstations, connectivity and collimators and revenue from our maintenance contracts.

In 2000, we sold our first solid-state gamma camera and launched our DIS business. From 2000 to 2003, our consolidated revenues grew from $7.1 million to $56.2 million, and were $15.9 million for the three months ended March 31, 2004. DIS and product revenues accounted for 62.0% and 38.0%, respectively, of our consolidated revenues for the year ended December 31, 2003 and 65.6% and 34.4%, respectively, of our consolidated revenues for the three months ended March 31, 2004. Given the recurring contractual revenue stream from our DIS business and our strategy to continue to expand the number of areas where we offer DIS services, we expect DIS revenue to continue to grow at a higher rate than product revenue and to continue to represent a large percentage of consolidated revenues. We attribute the overall growth of our business to geographical expansion, increased market penetration, awareness and acceptance, and the shift in the delivery of nuclear cardiology imaging procedures from hospitals to physician offices.

We reduced our net loss by $11.1 million from $12.8 million in 2002 to $1.7 million in 2003 and from $927,000 for the three months ended March 31, 2003 to $266,000 for the three months ended March 31, 2004. Furthermore, we have incurred substantial operating losses since our inception. As of March 31, 2004, our accumulated deficit was $80.5 million. We believe that we will achieve our first full year of profitability in 2004, and intend to continue to enhance profitability through increased volume and improved margins, although we may incur losses in any given quarter.

We experience some seasonality in our DIS business as a result of winter holidays, inclement weather and summer slowdowns principally relating to vacations. Historically, these variables have had the least impact on our second quarter operating results.

In April 2004, we completed the transition of our manufacturing operations from several separate facilities to a single facility in Poway, California. We believe this will consolidate our operations and improve efficiencies. We currently purchase some components from sole source providers and are qualifying or seeking second source providers in an effort to diversify our providers.

Results Of Operations

The following table sets forth our results from operations, expressed as percentages of revenues for the years ended December 31, 2001, 2002 and 2003, and for the three months ended March 31, 2003 and 2004:

				Three Months Ended March 31,	
	2001	2002	2003	2003	2004
Revenues:					
DIS	36.2%	55.4%	62.0%	57.8%	65.6%
Product	63.8	44.6	38.0	42.2	34.4
Total revenues	100.0	100.0	100.0	100.0	100.0
Cost of revenues:					
DIS	29.5	40.0	43.5	43.5	45.8
Product	46.5	32.8	26.8	29.6	22.9
Stock-based compensation	1.1	0.3	0.2	0.0	0.7
Total cost of revenues	77.1	73.1	70.5	73.1	69.4
Gross profit	22.9	26.9	29.5	26.9	30.6
Operating expenses:					
Research and development	10.6	7.1	3.9	4.5	4.1
Sales and marketing	35.3	19.4	10.7	11.9	11.2
General and administrative	28.9	22.9	14.4	14.2	13.5
Amortization and impairment of intangible assets	3.5	2.4	0.8	0.9	0.1
Stock-based compensation	4.5	1.2	0.2	0.0	1.2
Total operating expenses	82.8	53.0	30.0	31.5	30.1
Income (loss) from operations	(59.9)	(26.1)	(0.5)	(4.6)	0.5
Other income (expense)	(10.4)	(4.7)	(2.5)	(2.5)	(2.1)
Accretion of deferred issuance costs on preferred stock	(0.5)	(0.6)	(0.6)	(0.7)	(0.6)
Net loss applicable to common stockholders	(70.8)%	(31.4)%	(3.6)%	(7.8)%	(2.2)%

Comparison of Three Months Ended March 31, 2004 and 2003

Revenues

Consolidated. Our revenues are divided between two primary operating segments: product sales and our DIS business. Our product revenue consists primarily of selling our solid-state gamma cameras and accessories to physicians, outpatient clinics and hospitals. DIS revenue is comprised of performing our DIS services for physicians on a per day basis in accordance with a 12-month lease with annual commitment

levels. Our standard lease terms provide for automatic renewals for an additional 12-month period if the lease is not terminated in writing by the customer generally 90 days or more prior to the end of the term.

Consolidated revenues increased to $15.9 million for the three months ended March 31, 2004 from $13.0 million for the three months ended March 31, 2003, which represents an increase of $2.9 million, or 22.3%, primarily as a result of increased demand for our DIS services. We believe that this increased demand was a result of increased customer awareness and acceptance of our products and services. DIS and product revenue accounted for 65.6% and 34.4%, respectively, of total revenues for the three months ended March 31, 2004, compared to 57.8% and 42.2%, respectively, for the three months ended March 31, 2003. We expect DIS revenue to continue to grow at a higher rate than product revenue and to continue to represent a large percentage of consolidated revenue.

DIS. Our DIS revenue increased to $10.4 million for the three months ended March 31, 2004 from $7.5 million for the three months ended March 31, 2003, which represents an increase of $2.9 million, or 38.7%. The increase in DIS revenue resulted from an increase in the number of DIS service days from 2,010 for the three months ended March 31, 2003 to 2,734 for the three months ended March 31, 2004, which was primarily attributable to an increase in the number of physicians purchasing our DIS services. We deployed five additional mobile systems in the first quarter of 2004. Collectively, our DIS business operated 59 mobile and fixed site systems as of March 31, 2004 as compared to 46 as of March 31, 2003. We anticipate that our DIS revenue will increase if we expand into new markets and continue to penetrate existing markets.

Product. Our product revenue remained flat at $5.5 million for the three months ended March 31, 2004 compared to the same period of the prior year. While the number of gamma cameras sold increased, our net product revenue decreased by approximately $15,000 primarily because of premiums received on international gamma camera sales for the three months ended March 31, 2003 and in part because of lower average selling prices on our dual-head gamma cameras for the three months ended March 31, 2004. Our Cardius product line represented 73.2% of our product revenues for the three months ended March 31, 2004, compared to 22.2% for the three months ended March 31, 2003. While we expect pricing pressures on our gamma cameras to continue, we also anticipate demand, particularly for our Cardius product line, will continue to increase, potentially more than offsetting the effects of these pricing pressures.

Gross Profit

Consolidated. Consolidated gross profit increased to $4.8 million for the three months ended March 31, 2004 from $3.5 million for the three months ended March 31, 2003, which represents an increase of $1.4 million, or 38.7%. Consolidated gross profit as a percentage of revenue increased to 30.6% for the three months ended March 31, 2004 from 26.9% for the three months ended March 31, 2003, primarily as a result of an increase in revenue, lower per unit DIS imaging service costs and product cost reductions.

DIS. Cost of DIS revenue consists primarily of labor, radiopharmaceuticals, equipment depreciation and other costs associated with the provision of services. Our clinical and regulatory headcount relating to our DIS business increased to 150 employees at March 31, 2004 from 121 employees at March 31, 2003. Cost of DIS revenue increased to $7.3 million for the three months ended March 31, 2004 from $5.6 million for the three months ended March 31, 2003, which represents an increase of $1.6 million, or 28.8%, primarily as a result of our increased direct headcount. DIS gross profit increased to $3.1 million for the three months ended March 31, 2004 from $1.9 million for the three months ended March 31, 2003, which represents an increase of $1.3 million, or 68.9%, as a result of increased volumes and reductions in the per unit cost of various items consumed in providing the imaging services. DIS gross profit as a percentage of revenue increased to 30.2% for the three months ended March 31, 2004 from 24.8% for the three months ended March 31, 2003.

Product. Cost of goods sold primarily consists of materials, labor and overhead costs associated with the manufacturing and warranty of our products. Warranty costs are charged to cost of goods sold in the

period our cameras are sold and are based on our historical experience with failure rates and repair costs. Warranty reserves are reviewed monthly and if necessary, warranty expense is adjusted. Cost of goods sold decreased to $3.6 million for the three months ended March 31, 2004 from $3.8 million for the three months ended March 31, 2003, which represents a decrease of $202,000, or 5.2%. Product gross profit increased to $1.8 million for the three months ended March 31, 2004 from $1.6 million for the three months ended March 31, 2003, which represents an increase of $186,000, or 11.4%, primarily as a result of the decrease in cost of goods sold and reduced costs per unit resulting from increased manufacturing volumes, fewer and lower-cost materials and more efficient manufacturing processes used to build our third-generation camera heads introduced in July 2003. Product gross profit as a percentage of revenue increased to 33.4% for the three months ended March 31, 2004 from 29.9% for the three months ended March 31, 2003.

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. The primary costs are salaries and fringe benefits, consulting fees, facilities and overhead charges and nonrecurring engineering costs, such as tooling and other one-time costs associated with manufacturing. Research and development expenses increased to $640,000 for the three months ended March 31, 2004 from $579,000 for the three months ended March 31, 2003, which represents an increase of $61,000, or 10.5%. This increase was primarily attributable to increased employee headcount to develop new products. Research and development headcount increased to 17 employees at the end of March 31, 2004 from 15 employees at the end of March 31, 2003. In the future, we expect to continue to invest between approximately 10% and 12% of product revenue on research and development as we continue to improve our existing technology and innovate.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, commissions, bonuses, recruiting costs, travel, marketing and collateral materials and tradeshow costs. Sales and marketing expenses increased to $1.8 million for the three months ended March 31, 2004, from $1.5 million for the three months ended March 31, 2003, which represents an increase of $234,000, or 15.1%. This increase was primarily attributable to an increase in the number of sales and marketing personnel and expansion of our marketing efforts. For the three months ended March 31, 2004, sales and marketing expenses were 11.2% of total revenue, compared to 11.9% for the three months ended March 31, 2003. We expect to increase our sales and marketing efforts, as we focus on increasing market awareness of our products and offerings.

General and Administrative. General and administrative expenses consist primarily of salaries and other related costs for finance and accounting, human resources and other personnel, as well as legal and other professional fees and insurance. General and administrative expenses increased to $2.1 million for the three months ended March 31, 2004 from $1.9 million for the three months ended March 31, 2003, which represents an increase of $294,000, or 15.9%. Increases in headcount, insurance costs, recruiting costs and DIS billing and collection fees, all contributed to increased general and administrative expenses. General and administrative headcount was increased by seven employees by the end of March 31, 2004 to 40 employees from 33 employees at the end of March 31, 2003. At the end of March 31, 2004, general and administrative expenses amounted to 13.5% of total revenue compared to 14.3% at the end of March 31, 2003. If the offering contemplated by this prospectus is completed, we will be required to incur additional general and administrative costs to meet various public reporting and compliance requirements.

Amortization and Impairment of Intangible Assets. Intangible assets primarily represent customer contracts relating to our DIS business that we acquired from a third party in 2000 and capitalized patent and trademark portfolio costs, both of which are amortized over their respective useful life. Amortization and impairment of intangibles decreased to $16,000 for the three months ended March 31, 2004 from $119,000 for the three months ended March 31, 2003. This decline was principally a result of impairment

charges recorded during fiscal 2003, causing reduced amortization expense in future periods, beginning in the first quarter ended March 31, 2004.

Stock-Based Compensation Charges. Deferred compensation for stock options granted has been determined as the difference between the exercise price and the fair value of our common stock on the date of grant. Options or awards issued to non-employees are recorded at their fair value in accordance with SFAS No. 123 and periodically remeasured in accordance with EITF 96-18 and recognized over the respective service or vesting period. In connection with the grant of stock options to employees, we recorded deferred stock-based compensation of $1.2 million and zero for the three months ended March 31, 2004 and 2003, respectively. We recorded these amounts as a component of stockholders' equity and are amortizing the amount, on an accelerated basis, as a non-cash charge to cost of revenues and operations over the vesting period of the options. In connection with the grant of stock options to employees, we recorded as amortization of stock-based compensation of $304,000 and $2,000 for the three months ended March 31, 2004 and 2003, respectively. We expect that charges to be recognized in future periods from amortization of deferred compensation related to employee stock options grants will be $293,000, $226,000 and $185,000 for the three months ended June 30, September 30 and December 31 of 2004, respectively, and $996,000, $485,000, $231,000 and $70,000 for the years ending December 31, 2004, 2005, 2006 and 2007, respectively.

Other Income (Expense)

Interest expense decreased to $323,000 for the three months ended March 31, 2004 from $336,000 for the three months ended March 31, 2003, which represents a decrease of $13,000, or 3.9%. The reduction is a result of a decrease in the variable interest rates on two accounts receivable credit lines and a reduction on capital leases.

Other expenses for the three months ended March 31, 2004 represented a loss on disposals of assets.

Net Loss

Net loss decreased to $266,000 for the three months ended March 31, 2004 from $927,000 for the three months ended March 31, 2003, which represents a decrease of $661,000, or 71.3%, as a result of the factors described above.

Comparison of Years Ended December 31, 2003 and 2002

Revenues

Consolidated. Consolidated revenues in 2003 increased to $56.2 million from $41.5 million in 2002, which represents an increase of $14.7 million, or 35.4%, primarily as a result of increased demand for our DIS services and our Cardius products.

DIS. Our DIS revenue increased to $34.8 million in 2003 from $23.0 million in 2002, which represents an increase of $11.8 million, or 51.5%. The increase in DIS revenue resulted from an increase in the number of DIS service days from 6,567 for the year ended December 31, 2002 to 9,425 for the year ended December 31, 2003, which was primarily attributable to an increase in the number of physicians purchasing our DIS services. To respond to this demand, we deployed eight additional mobile systems in the year ended December 31, 2003. DIS revenue accounted for 62.0% of total revenues in 2003 versus 55.4% in 2002. Collectively, our DIS business operated 54 mobile and fixed site systems as of December 31, 2003.

Product. Our product revenue increased to $21.4 million in 2003 from $18.5 million in 2002, which represents an increase of $2.9 million, or 15.4%. This increase was due to increased sales of our gamma cameras and maintenance contract revenue. We sold 79 cameras in 2003 compared to 75 cameras in 2002. Product revenue accounted for 38.0% of total revenues for 2003 versus 44.6% in 2002. Maintenance contract revenues were $2.1 million in 2003 and $521,000 in 2002.

Gross Profit

Consolidated. Consolidated gross profit increased to $16.6 million in 2003 from $11.2 million in 2002, which represents an increase of $5.4 million, or 48.2%. Consolidated gross profit as a percentage of revenue increased to 29.5% in 2003 from 26.9% in 2002 primarily as a result of an increase in revenue, lower per unit DIS imaging service cost and product cost reductions.

DIS. Our clinical and regulatory headcount relating to our DIS business increased to 137 employees at the end of 2003 from 112 employees at the end of 2002. Cost of DIS revenue increased to $24.5 million in 2003 from $16.6 million in 2002, which represents an increase of $7.9 million, or 47.4%. DIS gross profit increased to $10.4 million in 2003 from $6.4 million in 2002, which represents an increase of $4.0 million, or 62.1%, as a result of increased volumes and reductions in the per unit cost of various items consumed in providing the imaging services. DIS gross profit as a percentage of revenue increased to 29.8% in 2003 from 27.8% in 2002.

Product. Cost of goods sold increased to $15.1 million in 2003 from $13.6 million in 2002, which represents an increase of $1.5 million, or 10.7%. Product gross profit increased to $6.3 million in 2003 from $4.9 million in 2002, which represents an increase of $1.4 million, or 28.6%, as a result of the increase in the volume of cameras produced, fewer and lower-cost materials and more efficient manufacturing processes due to the introduction of our third-generation camera heads. Our third-generation camera heads consist of fewer and lower-cost materials than our earlier generation camera heads and are produced using more efficient processes that have reduced overhead and labor costs compared to historical rates. Product gross profit as a percentage of revenue increased to 29.4% in 2003 from 26.4% in 2002.

Operating Expenses

Research and Development. Research and development expenses decreased to $2.2 million in 2003 from $3.0 million in 2002, which represents a decrease of $776,000, or 26.2%, primarily as a result of our efforts to develop and launch our Cardius camera product line in 2002. Research and development headcount increased to 16 employees in 2003 from 14 employees in 2002.

Sales and Marketing. Sales and marketing expenses decreased to $6.0 million in 2003 from $8.1 million in 2002, which represents a decrease of $2.1 million, or 25.5%. In late 2002, we restructured the management of the sales organization and modified the compensation structure, resulting in a significant reduction in sales expense both in dollars and as a percent of revenue. In 2003, sales and marketing expenses were 10.7% of total revenue versus 19.4% in 2002.

General and Administrative. General and administrative expenses decreased to $8.1 million in 2003 from $9.5 million in 2002, which represents a decrease of $1.4 million, or 14.7%. Reduced outside legal expenses, which were partially offset by the addition of in-house general counsel, and a reduction in headquarters headcount, all contributed to lower general and administrative expenses. General and administrative headcount was reduced by one employee by the end of 2003 to 33 employees versus 34 employees at the end of 2002. In 2003, general and administrative expenses amounted to 14.4% of total revenue versus 22.9% in 2002.

Amortization and Impairment of Intangible Assets. Amortization and impairment of intangibles decreased to $444,000 in 2003 from $1.0 million in 2002. The significant decline from 2002 to 2003 was principally a result of impairment charges recorded in 2002 associated with these purchased contracts.

Stock-Based Compensation Charges. In connection with the grant of stock options to employees, we recorded as amortization of stock-based compensation of $226,000 and $606,000 for the years ended December 31, 2003 and 2002, respectively.

Other Income (Expense)

Interest expense decreased to $1.4 million in 2003 from $2.0 million in 2002, which represents a decrease of $558,000, or 28.1%. The reduction is a result of a decrease in the variable interest rates on two accounts receivable credit lines and a reduction on capital leases, and $243,000 of debt discount associated with our $1.9 million bridge financing in 2002.

Interest income decreased to $35,000 in 2003 from $65,000 in 2002, which represents a decrease of $30,000, or 45.6%, primarily due to lower interest rates in 2003 on cash and cash equivalent accounts.

Net Loss

Net loss decreased to $1.7 million in 2003 from $12.8 million in 2002, which represents a decrease of $11.1 million, or 86.8%, as a result of the factors described above.

Comparison of Years Ended December 31, 2002 and 2001

Revenues

Consolidated. Our consolidated revenues increased to $41.5 million in 2002 from $28.3 million in 2001, which represents an increase of $13.2 million, or 46.7%. This increase was due primarily to a significant increase in DIS imaging services volume as DIS began to achieve more market acceptance.

DIS. Our DIS revenue increased to $23.0 million in 2002 compared to $10.2 million in 2001, which represents an increase of $12.8 million, or 124.7%, resulting primarily from geographical expansion and market acceptance. Our DIS revenue accounted for 55.4% of total revenues in 2002 versus 36.2% in 2001.

Product. Our product sales revenue increased to $18.5 million in 2002 from $18.1 million in 2001, which represents an increase of $462,000, or 2.6%, in 2002. The minor increase was a result of our decision to flatten the sales and marketing organization, resulting in a low product sales growth rate over the prior year. Product revenue accounted for 44.6% of total revenues in 2002 versus 63.8% in 2001.

Gross Profit

Consolidated. Consolidated gross profit increased to $11.2 million in 2002 from $6.5 million in 2001, which represents an increase of $4.7 million, or 72.8%. Consolidated gross profit as a percentage of revenue increased to 26.9% in 2002 from 22.9% in 2001, primarily as a result of a year-to-year increase in revenue and lower cost per day to perform our DIS services.

DIS. Cost of DIS revenue increased to $16.6 million in 2002 from $8.3 million in 2001, which represents an increase of $8.3 million, or 98.9%. DIS gross profit increased to $6.4 million in 2002 from $1.9 million in 2001, which represents an increase of $4.5 million, or 238.1%, as a result of increased volume and other servicing efficiencies as DIS expanded geographically within the United States. DIS gross profit as a percentage of revenue increased to 27.8% in 2002 from 18.5% in 2001.

Product. Cost of goods sold increased to $13.6 million in 2002 from $13.2 million in 2001, which represents an increase of $440,000, or 3.3%. Product gross profit remained flat at $4.9 million from 2001 to 2002. Product gross profit as a percentage of revenue decreased to 26.4% in 2002 from 27.0% in 2001.

Operating Expenses

Research and Development. Research and development expenses were $3.0 million in both 2001 and 2002. Although we reduced the number of employees in 2002, the launch of the Cardius camera line and associated expenses offset any reductions in research and development expenses. We reduced our research and development headcount in 2002 to 14 employees from 25 employees at the end of 2001. Research and development expenses amounted to 7.1% of consolidated revenues in 2002 versus 10.6% in 2001.

Sales and Marketing. Sales and marketing expenses decreased to $8.1 million in 2002 from $10.0 million in 2001, which represents a decrease of $1.9 million, or 19.1%. The decrease in sales and marketing expense was related primarily to reductions in our sales and marketing personnel in early 2002 as we repositioned ourselves to focus on profitable growth. Sales and marketing headcount was reduced to 29 employees at the end of 2002 versus 50 employees at the end of 2001. Sales and marketing expenses amounted to 19.4% of consolidated revenues in 2002 compared to 35.2% in 2001.

General and Administrative. General and administrative expenses increased to $9.5 million in 2002 from $8.2 million in 2001, which represents an increase of $1.3 million, or 16.4%. The increase resulted primarily from increases in accounting, human resource and other administrative headcount expenses and settlement fees in 2002. General and administrative expenses amounted to 22.9% of consolidated revenues in 2002, compared to 28.8% in 2001.

Amortization and Impairment of Intangible Assets. Amortization of intangible assets is primarily amortization of capitalized costs associated with purchased contracts and capitalized patent and trademark costs; both are amortized over their respective useful life. Amortization and impairment of intangible assets was constant year-to-year, $1.0 million in 2002 and 2001.

Stock-Based Compensation Charges. Total stock-based compensation decreased to $606,000, or 62.7%, in 2002 from $1.6 million in 2001, which represents a decrease of $972,000, or 61.6%, as the remaining deferred compensation was recorded in 2002.

Other Income (Expense)

Interest expense increased to $2.0 million in 2002 from $1.4 million in 2001, which represents an increase of $551,000, or 38.3%. The increase was primarily attributable to increases in the accounts receivable credit line borrowings and an increase in capital equipment lease lines for DIS equipment. We also incurred $243,000 of expense in conjunction with our bridge financing in 2002.

Interest income decreased to $65,000 in 2002 from $118,000 in 2001, which represents a decrease of $53,000, or 44.9%, due to the termination of a sales-type lease in 2002. The lease was entered into in 2001 and is the only sales-type lease we have ever recorded. We have no intention to enter into other sales-type lease arrangements in our forseeable future.

Other expenses were $1.6 million in 2001, which were related to the costs incurred in connection for a proposed initial public offering which was not completed.

Net Loss

Net loss decreased to $12.8 million in 2002 from $19.9 million in 2001, which represents a decrease of $7.1 million, or 35.9%. Net loss in 2001 decreased as a result of the factors described above.

Liquidity And Capital Resources

General

We require capital principally for operating our DIS business, interest payments, working capital, debt service and capital expenditures. Our capital expenditures consist primarily of manufactured DIS cameras, computer hardware and software. Working capital is required principally to finance accounts receivable and inventory. Our working capital requirements vary from period to period depending on manufacturing volumes, the timing of deliveries and the payment cycles of our customers and payors.

We have historically funded our operations principally through private equity financings supplemented with credit lines, equipment financing arrangements and cash from operations. We completed seven private placements of preferred stock between March 1995 and June 2002, yielding aggregate net proceeds of approximately $83.5 million. At March 31, 2004, our outstanding borrowings

totaled $15.8 million. Based upon our current level of expenditures, we believe proceeds from this offering, together with cash flows from operating activities, availability under our current or future revolving credit lines will be adequate to meet our anticipated cash requirements for interest payments, working capital, debt service and capital expenditures for the next 12 months.

Our preferred stock is redeemable on or after July 31, 2004 upon the request of certain preferred stock investors. We must redeem all outstanding shares of our preferred stock by paying in cash its redemption value plus declared but unpaid dividends which, as of March 31, 2004, equaled a total of $119.4 million. No dividends have been declared through March 31, 2004. If the funds of our company that are legally available for redemption are insufficient to redeem the total number of preferred shares to be redeemed, those funds which are legally available must be used to redeem the maximum possible number of shares pro rata among the various series of preferred stock. Upon completion of this offering all of our outstanding shares of preferred stock automatically will convert into 12,444,294 shares of our common stock. If the offering contemplated by this prospectus is not completed, and the redeemable preferred shares remain outstanding, we do not anticipate having legally available funds to redeem any portion of the preferred shares in 2004.

As of March 31, 2004, cash and cash equivalents totaled $8.9 million compared to $7.7 million at December 31, 2003. We currently invest our cash reserves in money market funds.

Net cash provided by operations was approximately $3.1 million for the three months ended March 31, 2004. Net cash used in operating activities amounted to approximately $52,000 for the three months ended March 31, 2003. Net cash provided in operating activities for the three months ended March 31, 2004 was primarily a result of increases in accounts payable and accrued liabilities that were expensed and accrued in March 2004 but paid in April 2004, augmented by non-cash items such as depreciation and amortization of stock-based compensation. Cash used in operating activities for the three months ended March 31, 2003 resulted primarily from operating losses and net increases in accounts receivable resulting from the growth in our business.

Net cash provided by operations was $158,000 in 2003. Net cash used in operating activities amounted to approximately $9.8 million and $16.8 million for the years ended December 31, 2002 and 2001, respectively. For these periods, net cash used in operating activities resulted primarily from operating losses and net increases in accounts receivable resulting from the growth in our business.

Accounts receivable were $12.6 million, $12.2 million, $7.9 million and $4.8 million at March 31, 2004 and December 31, 2003, 2002 and 2001, respectively. The $452,000 or 3.7% increase at the end of March 31, 2004 compared to the end of December 31, 2003, was as a result of increased DIS revenue. The $4.3 million or 55.0% increase at the end of 2003 compared to the end of 2002, was a result of revenue growth in DIS and increased product deliveries. The $3.1 million or 63.8% increase at the end of 2002 compared to the end of 2001 was attributable primarily to the increase in product deliveries, and the significant increase in DIS revenue. Inventories were $3.7 million, $3.7 million, $5.8 million and $8.6 million at March 31, 2004 and December 31, 2003, 2002 and 2001, respectively. The $2.0 million or 35.5% decrease at the end of 2003 compared to the end of 2002, was a result of the our efforts to reduce inventory levels during 2003 and the introduction of lower-cost key components that resulted in lower inventory carrying amounts. The $2.9 million, or 33.3%, decrease at the end of 2002 compared to the end of 2001 was due primarily to our carrying more inventories at the end of 2001 as we were ramping up for anticipated growth.

Net cash used in investing activities amounted to approximately $1.3 million and $333,000 for the three months ended March 31, 2004 and 2003, respectively. Investing activities consist primarily of DIS servicing units and other capital expenditures.

Net cash used in investing activities amounted to approximately $2.0 million, $1.8 million and $7.8 million for the years ended December 31, 2003, 2002 and 2001 respectively. Investing activities consist primarily of DIS servicing units and other capital expenditures.

Net cash used by financing activities amounted to approximately $584,000 and $593,000 for the three months ended March 31, 2004 and 2003, respectively. Repayment of credit line borrowings and capital lease obligations were primarily responsible for the net cash used by financing activities.

Net cash provided by financing activities amounted to approximately $2.5 million, $16.6 million and $20.0 million for the years ended December 31, 2003, 2002 and 2001, respectively. Private placements of our preferred stock and proceeds from bank borrowings, lease financings and credit line borrowings were primarily responsible for the net cash provided by financing activities.

Working Capital

We believe that DIS and product revenues will continue to increase. We believe that a majority of this increase will occur in the cardiology office market from the use of DIS service, which could increase the average collection period of our consolidated accounts receivable. The average collection period has historically been longer for DIS revenue than for product revenue. For the twelve-months ended March 31, 2004, our average days-sales-outstanding was approximately 75 days for our DIS revenue and approximately 50 days for our product revenue. During the twelve-month period ended March 31, 2004, we were able to reduce the DIS days-sales-outstanding by approximately 15 days. We improved our DIS collection efforts through the adoption of a number of policies and procedures focused on reducing the time following the performance of our services and invoicing the doctors or other payors. We anticipate continued reductions in collection times of DIS receivables; however, we expect DIS collection times to continue to be longer than product sales collection times based on our historical experience. If consolidated accounts receivable increase, we will use available cash on hand to fund the increase. We expect, without taking into account our receipt of the estimated net proceeds of this offering, that cash on hand, cash flow from operations and borrowings under our existing lines of credit will be sufficient to meet our working capital needs over the next twelve months.

Debt Service

In January 2001, we entered into a loan and security agreement for a revolving line of credit to provide working capital for our DIS business. We are authorized to draw up to $5.0 million and the borrowings under the line of credit, as amended in March 2004, accrue interest at the higher of 6.0% or prime plus 1.25%. This revolving line of credit expires in December 2004. As of March 31, 2004, our outstanding balance under this loan and security agreement totaled $4.5 million. We intend to repay this loan in full with proceeds from this offering.

In October 2003, we renewed an agreement for a $5.0 million revolving line of credit to provide working capital for our product sales. Borrowings under this line of credit accrue interest at the bank's floating prime rate plus 1.75% 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 October 2004, with any unpaid balance due upon expiration. As of March 31, 2004, our outstanding balance under this facility was $4.7 million. We intend to repay this loan in full with proceeds from this offering.

In the event we are unable to complete the offering, we believe we can renew our credit lines or access alternate sources of financing based on the improvement in our operating results and our cash flow.

We have notes payable to our stockholders totaling $735,000, which bear interest at 6.35% per year. Beginning March 31, 2004, we are obligated to repay these notes equally over 12 quarters, with the first payment payable on May 15, 2004 and subsequent payments due on the 45th day after the end of each following quarter. On May 7, 2004, we entered into an agreement with the holders of certain of the notes payable in which we agreed to make the first quarterly payment under their respective notes on May 10, 2004. We also agreed to repay the principal amount outstanding under their respective notes within 60 days of the completion of this offering. As of March 31, 2004, the outstanding principal balance under these notes was approximately $490,000. We may also enter into a similar agreement to repay the principal

amount outstanding under a note held by another stockholder. As of March 31, 2004, the outstanding principal balance under this note was approximately $245,000.

As of March 31, 2004, we had capital lease obligations totaling $5.9 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 48 to 63 months. Our DIS subsidiary entered into the majority of these capital lease obligations.

We are committed to making future cash payments on notes payable to our stockholders, capital leases (including interest), operating leases and lines of credit. We have not guaranteed the debt of any other party. The following table summarizes our contractual obligations as of December 31, 2003 (dollars in thousands):

	Payments Due by Period				
Contractual obligations	**Total**	**Current**	**1-3 years**	**3-5 years**	**More than 5 years**
Notes payable to stockholders	$ 735	$ 245	$ 245	$ 245	$ —
Capital lease obligations	7,505	2,741	4,197	567	—
Operating lease obligations	3,861	696	1,376	1,170	619
Lines of credit	9,357	9,357	—	—	—
Total	$ 21,458	$ 13,039	$ 5,818	$ 1,982	$ 619

Quantitative And Qualitative Disclosures About Market Risk

Our exposure to market risk due to 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 on 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, all of which have interest rates that 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 increase 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.

Related Party Transactions

For a description of our related party transactions, see the section of this prospectus entitled "Certain Relationships and Related Transactions."

Critical Accounting Policies

The Securities and Exchange Commission defines critical accounting policies as those that are, in management's opinion, very important to the portrayal of our financial condition and results of operations and require our management's most difficult, subjective or complex judgments. In preparing our financial statements in accordance with generally accepted accounting principles in the United States, we must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses

and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex. Consequently, actual results could differ from our estimates. The accounting policies that are most subject to important estimates or assumptions include those described below.

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin No. 101 when each of the following four criteria are met:

1. A contract or sales arrangement exists;
2. Products have been shipped and title has transferred or services have been rendered;
3. The price of the products or services is fixed or determinable; and
4. Collectibility is reasonably assured.

For our product revenue, these criteria are usually met upon delivery. Our DIS revenue is recorded once the services and disposables are provided and consumed, which is normally on the day of the service. Reductions to product revenue are recorded to provide for payment adjustments and credit memos and historically have not been significant. Reductions to our DIS revenue are recorded to provide for payment adjustments and credit memos. In addition, we establish reserves against our DIS revenue to allow for uncollectible items relating to patient co-payments and contractual allowances and other adjustments, based on historical collection experience.

Reserves for Doubtful Accounts, Billing Adjustments and Contractual Allowances

Historically, the need to estimate reserves for accounts receivable has been limited to our DIS business. We provide reserves for billing adjustments, contractual allowances and doubtful accounts. DIS payment adjustments and credit memos are adjustments for billing errors that are normally adjusted within the first 90 days subsequent to the performance of service, with the majority occurring within the first 30 days. Reserves are provided as a percentage of DIS revenue based on historical experience rate. We primarily bill the physicians under contract directly, and in a minority of cases, we are reimbursed under government programs, Medicare or by private insurance companies. We provide reserves for contractual allowances for billings to Medicare and insurance companies based on our collection experience rates. We use a combination of factors in evaluating the collectibility of accounts receivable. Each account is reviewed on at least a quarterly basis and a percentage varying from zero to 100% for each account is established. We do not establish reserves for accounts with a history of payment without disputes. We generally reserve between 20% and 50% of the outstanding balance for accounts that are more than 180 days late and under dispute. We reserve 100% of the outstanding balance for accounts that we believe constitute a high risk of default based on factors such as level of dispute, payment history and our knowledge of a customer's inability to meet its obligations. We also consider bad debt write-off history. Our estimates of collectibility could be reduced by material amounts by changed circumstances, such as a higher number of defaults or material adverse changes in a payor's ability to meet its obligations.

In 2003, we provided approximately 2% of our DIS revenues to establish our reserves. The provisions for billing adjustments and contractual allowances are charged against DIS revenues and the provision for doubtful accounts is charged to general and administrative expenses.

Long-Lived Assets

We state property and equipment and purchased contracts at cost. We capitalize betterments, which extend the useful life of the equipment. We calculate depreciation on property and equipment and purchased contracts on the straight-line method over the estimated useful live (three to seven years for property and equipment and five years for purchased contracts) of the assets. We follow Financial Accounting Standards Board ("FASB") *Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for Impairment or Disposal of Long-Lived Assets*, 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, we measure the impairment be recognized by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. We have taken impairment charges on certain customer contracts purchased during 2000 from Nuclear Imaging Systems, Inc. and Florida Cardiology, Inc. Assets are examined for impairment annually or more frequently if events occur that may indicate a potential asset impairment.

Inventory

We state inventories at the lower of cost (first-in, first-out) or market (net realizable value). Costs include material, labor and manufacturing overhead costs. Inventory expected to be converted into equipment to be used as mobile imaging units in DIS is classified as property and equipment. We review our inventory balances monthly for excess sale products or obsolete inventory levels. Except where firm orders are on-hand, we consider inventory quantities of sale products in excess of the last 12 months' demand as excess and reserve for them at levels between 20% and 50% of cost, depending on our knowledge and forecast for the product. We establish obsolescence reserves on an increasing basis from 0% for active, high-demand products, to 100% for obsolete products. We review the reserve periodically and, if necessary, make adjustments. We rely on historical information to support our reserve and utilize management's business judgment. Once the inventory is written down, we do not adjust the reserve balance until the inventory is sold.

Warranty

We provide a warranty on certain of our products and accrue the estimated cost at the time revenue is recorded. Historically, the warranty periods have ranged from up to 24 months. Since July 2002, substantially all of the warranty periods have been 12 months before customer-sponsored maintenance begins. Warranty reserves are established based on historical experience with failure rates and repair costs and the number of units at customers covered by warranty. We review warranty reserves monthly and, if necessary, make adjustments.

New Accounting Pronouncements

In November 2002, the FASB issued FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures required in financial statements concerning obligations under certain guarantees. We adopted the disclosure requirements of this interpretation that were effective on December 31, 2002. The recognition provisions of the interpretation are effective in 2003 and are applicable only to guarantees issued or modified after December 31, 2002. We have not issued or modified any such guarantees and accordingly the interpretation did not have a material impact on our financial position, results of operations or cash flows for the fiscal year ended December 31, 2003.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*, an Interpretation of ARB No. 51. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In December 2003, the FASB issued FIN No. 46R, a revision to FIN No. 46. FIN No. 46R provides a broad deferral of the latest date by which all public entities must apply FIN No. 46 to certain variable interest entities to the first reporting period ending after March 15, 2004. We do not expect the adoption of FIN No. 46 or FIN No. 46R to have a material impact upon our financial position, cash flows or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material effect on our consolidated financial statements.

BUSINESS

Overview

We are a leader in the development, manufacture and distribution of solid-state medical imaging products and services for the detection of cardiovascular disease and other medical conditions. We designed and commercialized the first solid-state gamma camera. Our initial focus is nuclear cardiology imaging procedures performed with gamma cameras, which we believe generate revenue of approximately $10.0 billion annually. Our target markets are primarily physician practices and outpatient clinics, which we believe constitute approximately 25% of this total market, or $2.5 billion.

By utilizing solid-state technology rather than bulky vacuum tubes, we believe that our imaging systems maintain image quality while offering significant advantages over vacuum tube-based systems, including mobility through reduced size and weight, enhanced operability and reliability, and improved patient comfort and utilization. Due to size and other limitations of vacuum tube cameras, nuclear imaging has traditionally been confined to dedicated and customized space within a hospital or imaging center. The mobility of our imaging systems enables us to deliver nuclear imaging procedures in a wide range of clinical settings—physician offices, outpatient clinics or within multiple departments in a hospital.

We sell our imaging systems to physicians, outpatient clinics and hospitals. In addition, through our wholly-owned subsidiaries, Digirad Imaging Solutions, Inc. and Digirad Imaging Systems, Inc., which we refer to collectively as DIS, we also offer a comprehensive and mobile imaging leasing and services program, called FlexImaging, for physicians who wish to perform nuclear cardiology imaging procedures in their offices but do not have the patient volume, capital or resources to justify purchasing a gamma camera. DIS provides physician customers with an imaging system, certified personnel, required licensure and other support for the performance of nuclear imaging procedures under the supervision of our physician customers. Physicians enter into annual contracts for imaging services delivered on a per-day basis. DIS currently operates 21 regional hubs and eight fixed sites and performs services in 17 states and the District of Columbia.

The mobility of our imaging systems and the flexibility of our leasing service allow cardiologists to provide nuclear imaging procedures in their offices to patients that they historically had to refer to hospitals or imaging centers. As a result, we provide physicians with more control over the diagnosis and treatment of their patients and enable physicians to capture revenue from procedures that would otherwise be referred to these hospitals and imaging centers.

Nuclear imaging is a clinical diagnostic tool that has been in use for over 40 years with reimbursement codes established since 1971. According to industry sources, approximately 18.4 million nuclear imaging procedures were performed in the United States in 2002, of which 9.9 million procedures were cardiac applications, a volume that is expected to grow by approximately 25% annually over the next three years. We estimate that the growth rate in 2002 for nuclear imaging procedures performed in physician offices was approximately 44% and in hospitals was approximately 6%. We expect the mobility of our imaging systems will continue to allow us to capitalize on this shift in the delivery of nuclear cardiology imaging services from hospitals to physician offices.

The target market for our products is the approximately 30,000 cardiologists in the United States that perform or could perform nuclear cardiology procedures. To date, we have sold or provided imaging services through DIS to approximately 500 physicians. In 2003, DIS performed over 66,000 patient procedures.

We sold our first gamma camera in March 2000 and we established DIS in September 2000. We had consolidated revenues and net losses of $41.5 million and $12.8 million, respectively, in fiscal 2002, $56.2 million and $1.7 million, respectively, in fiscal 2003 and $15.9 million and $266,000, respectively, in the three months ended March 31, 2004. Revenue from DIS and from our camera sales constituted 62% and 38%, respectively, of our 2003 consolidated revenues and 66% and 34%, respectively, of our consolidated revenues for the three months ended March 31, 2004. We believe DIS will continue to

provide us with recurring annual contractual revenue and comprise the largest component of our consolidated revenue.

Market Opportunity

Nuclear Imaging

Nuclear imaging is a form of diagnostic imaging in which depictions of the internal anatomy or physiology are generated primarily through non-invasive means. Diagnostic imaging facilitates the early diagnosis of diseases and disorders, often minimizing the scope, cost and amount of care required and reducing the need for more invasive procedures. Currently, five major types of non-invasive diagnostic imaging technologies are available: x-ray; magnetic resonance imaging; computerized tomography; ultrasound; and nuclear imaging.

Nuclear imaging measures varying degrees of physiological activity. Physicians use the images and related clinical information to determine whether to refer patients to more invasive diagnostic or therapeutic treatments. Nuclear imaging is provided through two primary technologies, gamma cameras and dedicated positron emission tomography, or PET, machines. According to industry sources, despite the improved image quality from PET machines, gamma cameras are used for a substantial majority of nuclear imaging procedures. We believe this preference is due to the lower purchase and maintenance costs, smaller physical footprint and easier service logistics of gamma cameras. The most widely used imaging acquisition technology utilized in gamma cameras is single photon emission computed tomography, or SPECT. All of our current cardiac gamma cameras utilize SPECT.

Clinical Applications for Nuclear Imaging

Nuclear imaging is used primarily in cardiovascular, oncological and neurological applications. Nuclear imaging involves the introduction of very low-level radioactive chemicals, called radiopharmaceuticals, into the patient's body. The radiopharmaceuticals are specially formulated to concentrate temporarily in the specific part of the body to be studied. A system comprised of a gamma camera detector and computer is then used to detect the radiation signal emitted by the chemicals and to convert that signal into an image of the body part or organ. Nuclear imaging, in contrast to other diagnostic imaging modalities, shows not only the anatomy or structure of an organ or body part, but also its function—including blood flow, organ function, metabolic activity and biochemical activity. According to industry sources, the following nuclear imaging procedures were performed with gamma cameras in the United States in 2002:

- *Cardiac Applications.* Approximately 9.9 million procedures were performed in cardiology to provide diagnostic information concerning the flow of blood to, through and from the heart as well as the condition of the heart muscle.

- *Non-Cardiac Applications.* Approximately 8.5 million procedures were performed in oncology and organ imaging to provide diagnostic information on tumor location and size or on the condition and function of various organs.

Nuclear Cardiology

We believe that nuclear cardiology procedures performed annually in the United States with gamma cameras generate revenue of approximately $10.0 billion. Our target market for DIS services is primarily physician practices and outpatient clinics, which we believe constitute approximately 25% of this total market, or $2.5 billion. In addition, the market for gamma camera sales across all care settings in the United States is estimated to be approximately $440 million annually.

According to industry sources, nuclear cardiology procedures are expected to grow by approximately 25% annually over the next three years. We believe the growth of these procedures will be driven by the expected increase in coronary heart disease. According to the American Heart Association, this increase in

heart disease will result from the aging of baby boomers and the record rate of obesity and diabetes in all age groups.

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

The target market for our gamma camera sales and the FlexImaging services offered by DIS are the approximately 30,000 cardiologists in the United States that perform nuclear cardiology procedures. We have sold cameras or leased our services through DIS to approximately 500 physicians. In 2003, DIS performed over 66,000 patient procedures. We sell our imaging systems and provide our FlexImaging services to hospitals that provide nuclear cardiology procedures on either an outpatient or inpatient basis, and to physicians that provide these procedures in their offices. According to industry reports, the growth rate in 2002 for procedures performed in physician offices was approximately 44%, and in hospitals was approximately 6%. We believe this trend is driven by the desire of cardiologists to control their patients' diagnosis and treatment and to capture revenues from procedures that would otherwise be referred to hospitals or imaging centers. The unique mobility of our imaging systems allows us to capitalize on this shift from hospital-based imaging to physician office-based imaging.

Competitive Strengths

We believe that our position as a market leader in the nuclear cardiac imaging market is a product of the following competitive strengths:

- *Leading Solid-State Technology.* We were the first company to develop and commercialize solid-state technology for nuclear imaging applications. We have continued to introduce new products and to develop our manufacturing capability and intellectual property. We believe the mobility of our imaging systems has accelerated the shift of nuclear cardiology procedures from hospitals and imaging centers to physician offices.

- *Mobile Applications Through Reduced Size and Weight.* Our solid-state technology has allowed us to reduce the size and weight of gamma cameras, resulting in the only in-office mobile cardiac gamma camera on the market. Our cameras weigh less than 450 pounds and our imaging chairs weigh less than 350 pounds. Together they require a working space of only seven feet by eight feet, and generally can be employed without facility renovations. As a result, our imaging systems are capable of being easily moved within a hospital or imaging facility, or by van between physician offices. In contrast, vacuum tube cameras typically weigh 2,400 to 5,000 pounds, are very difficult to move and often require a dedicated room and facility renovations such as reinforced floors.

- *Image Quality.* We believe our imaging systems maintain a high-quality image despite the rigors of a mobile environment. In addition, our imaging chair places the patient in an upright position, which reduces the potential for certain types of false indications of an organ defect. Most vacuum tube cameras require patients to be imaged while lying on their backs. In this position, the diaphragm does not descend and may push other organs up against the apex of the heart, which may result in false indications. We believe that we mitigate this problem through our upright patient positioning.

- *Enhanced Operability and Reliability.* We believe our imaging systems provide more convenient operation, better power efficiency and increased reliability as compared to vacuum tube cameras. These cameras must be powered continuously to stabilize the temperature of multiple vacuum tubes. Our gamma cameras do not require continuous power and are ready to image minutes after

being turned on. In addition, our solid-state technology is more mechanically durable than vacuum tubes, which are more likely to change their performance characteristics if they sustain physical shocks during transportation. The small size and light weight of our detector heads and the modular design of our cameras also facilitate repairs and upgrades in the field, which are often accomplished by delivering replacement components overnight.

- *Improved Patient Comfort and Utilization.* We believe the upright and open architecture of our patient chair can reduce patient claustrophobia and increase patient comfort when compared to traditional vacuum tube-based imaging systems. The majority of other imaging systems require the patient to lie flat and have detector heads rotate around the patient, creating a more confining environment and potentially increasing the time it takes the patient to enter and exit the system. Depending on the patients' physical condition, we believe the time savings available with our upright imaging may increase productivity by as much as one additional patient per day.

- *Unique Dual Distribution.* We have implemented a unique dual distribution model by offering our physician and hospital customers alternatives for using our imaging systems. We sell imaging systems to physicians and hospitals that wish to perform nuclear imaging in their facilities and manage the related service logistics. Through DIS, we also offer our FlexImaging services to physicians and hospitals on an annual basis in flexible increments ranging from one day per month to several days per week. DIS allows physicians and hospitals to offer nuclear imaging procedures to their patients without the capital investment, certified personnel, required licensure and other logistics associated with operating a nuclear imaging site.

- *Intellectual Property Portfolio.* We have developed an intellectual property portfolio that includes product, component and process patents covering various aspects of our imaging systems. Currently, we own 21 patents issued in the United States and two patents issued internationally. We also have 10 additional patent applications pending in the United States and 21 pending applications internationally. In addition to our patent portfolio, we have developed proprietary manufacturing and business know-how and trade secrets that we believe provide us with a competitive advantage.

Our Technology

Conventional Vacuum Tube Technology

Most gamma cameras use a scintillation crystal, or scintillator, to convert the energy of a gamma ray photon into light. This light is then converted by means of a photodetector into an electrical signal which is reconstructed into a diagnostic image. Most traditional gamma cameras use a single crystal sheet as the scintillator and use vacuum tubes as their photodetectors, which are referred to as vacuum tube photomultipliers. This basic approach has not undergone any fundamental change in over 40 years.

Each vacuum tube is approximately the size of a soft drink can. Since a detector can consist of up to 60 vacuum tubes, the result is a camera with both a large detector enclosure and significant weight due to the lead shield that is required around the detector enclosure. In addition, vacuum tubes cannot be easily moved or used in a mobile environment because vibration may change the electrical properties of the tubes or break them. Further, vacuum tubes may lose their vacuum over time resulting in reduced reliability.

Our Solid-State Technology

We introduced the first solid-state gamma cameras to the nuclear imaging market in March 2000. Our imaging systems utilize a proprietary photodetector which incorporates a silicon semiconductor, or photodiode, that detects light and converts it into an electronic signal for reconstruction into a diagnostic image. Our photodiode replaces the vacuum tubes used in traditional gamma cameras. The size and thickness of our photodiodes is approximately that of a dime, which enables us to build detector heads that are significantly smaller and lighter than the detector heads in traditional gamma cameras. Our solid-state

photodiodes are durable and do not change their electrical properties as a result of vibration associated with transportation and are more reliable over time as compared with vacuum tubes. These properties allow our imaging systems to be mobile.

Although photodiodes have been used for many years in varying applications, their use in gamma cameras was previously unsuccessful because performance and functionality limitations prevented the development of a commercially viable product. When a gamma ray emitted from a patient strikes a scintillator, only a very small amount of light is generated, and an even smaller electrical signal is produced in the photodiode. Traditional photodiodes were able to detect these small electrical signals only at very low temperatures, typically less than -20° celsius, due to the electrical noise inherent in the photodiodes. The equipment and cost required to maintain this low temperature prohibited commercialization of a photodiode-based gamma camera. Our proprietary photodiode is capable of measuring these small electrical signals at near room temperature, which reduces cost and improves reliability.

Our photodiode is packaged with our segmented scintillation crystal and readout electronics into a patented detector module. The segmented scintillation crystal allows our module to achieve higher gamma ray detection rates than the single crystal sheet used in traditional gamma cameras. We believe the improved detection rates will be useful with new molecular imaging agents that we anticipate being introduced into the market. The entire module is designed so that it can be physically joined to other modules in varying sizes and shapes, allowing for the design of large field of view and application-specific imaging systems.

Our Products

We sell a line of solid-state gamma cameras and accessories offering both general medical imaging and specific clinical-application imaging. In a typical nuclear cardiology procedure, the physician acquires two images from the patient, one while the patient's heart rate is at rest and the other after the heart has been stressed. The procedure begins with the injection of a small amount of radiopharmaceutical. A patient imaged by our gamma camera sits in an imaging chair and places both arms on a shoulder-level armrest. The chair is adjusted to align the patient's heart on the axis of the chair's rotation.

Following positioning of the patient, image acquisition begins with the patient slowly rotating through a 180 degree arc in front of the camera's detector head, which also has been positioned at heart level. The duration of the acquisition is a function of the patient's body mass, whether the test is performed with the heart at rest or under stress, the amount of radiopharmaceutical and the number of camera detectors on the system.

Stress images are acquired by stressing the heart, either through exercise or the use of other pharmaceuticals, and then injecting the radiopharmaceutical at the peak stress level. The difference between a resting and stress image allows the physician to determine the level of cardiac function. At the conclusion of each image acquisition, the chair is rotated to the exit position and the patient steps out. After collecting the images, the technologist performs the image reconstruction, checks the quality of the images and further processes the images. The physician then reviews the images and determines whether more invasive diagnostic procedures or therapeutic treatments are necessary.

We currently offer the following products:

Cardius[SM]*-2* is a stationary, dual-head gamma camera and patient chair designed for dedicated cardiology applications and high-procedure volumes. Expensive room modifications or electrical changes are generally not required to use this imaging system in an office setting. Further, the system offers the smallest footprint available today, fitting into a seven foot by eight foot room. The Cardius-2 features two proprietary third-generation detectors that accelerate the image acquisition process, resulting in higher patient throughput. The system is suited for larger cardiology practices, dedicated hospital-based cardiology systems, or imaging centers.

Cardius[SM]*-1* is a stationary, single-head gamma camera and patient chair designed for dedicated cardiology applications and lower procedure volumes. A single detector head results in image acquisition times suited for physicians and hospitals with the lower patient volumes usually associated with smaller cardiology practices. The Cardius-1 also features our proprietary third-generation detector and can be upgraded in the physician's office to a dual-head Cardius-2 by using our upgrade kit. This upgrade feature allows physicians to expand imaging volume as their practices grow and imaging needs increase.

2020tc Imager® is a mobile, single-head gamma camera that is compact and lightweight. The camera is used for general purpose imaging procedures taken from a single point of view, referred to as planar, ranging from bone scans to thyroid imaging. The small pixel size in our 2020*tc* Imager provides improved imaging resolution over traditional planar cameras. We sell this camera as a secondary camera to hospitals to increase their capacity and flexibility to image within multiple departments using a single asset.

SPECTpak PLUS combines our 2020*tc* Imager and SPECTour patient chair and provides both general purpose nuclear imaging and cardiology imaging, with the added flexibility of mobility. DIS uses the SPECTpak PLUS to provide mobile imaging services to its physician customers.

Workstations, Connectivity and Accessories. We offer a line of high-performance workstations equipped with multiple software options for nuclear image interpretation. We also sell connectivity between imagers from the same or different manufacturers to physicians who wish to integrate studies from multiple imagers into one single workstation or archival. In addition, we offer a line of accessories including hot lab equipment required for the use of radiopharmaceuticals, and various other supplies.

Digirad Imaging Solutions (DIS)

DIS offers a comprehensive and mobile imaging leasing service, called FlexImaging, which includes an imaging system, certified personnel, required licensure and other logistics for the performance of nuclear imaging procedures under the supervision of physicians. DIS allows cardiologists to provide nuclear imaging procedures in their offices to patients they historically had to refer to hospitals or imaging centers. As a result, DIS provides physicians with more control over their patients' diagnosis and treatment as well as incremental revenue opportunities. Physicians can tailor their nuclear imaging expenses to their practice needs and patient volumes.

Under our FlexImaging program, we provide a mobile camera, a state-certified nuclear imaging technologist, a paramedic or nurse, radioactive materials and related licensure and supervision for radiation safety services, medical supplies, a quality control process, patient preparation, administrative forms and information brochures. All imaging procedures are administered under the physician's supervision. We also customize our program to allow physicians to lease only our personnel or only our imaging systems, depending on their own practice needs.

DIS currently performs services in 17 states and the District of Columbia and has approximately 300 contracts with physicians, most of whom are office-based cardiologists. DIS also provides leasing services to internists, hospitals and clinics. Our DIS operations use a "hub and spoke" model in which centrally located regional hubs anchor multiple van routes in the surrounding metropolitan areas. As of March 31, 2004, we had a total of 180 employees in our DIS business operating 21 hubs, eight fixed sites, and 59 cameras. We have invested substantial resources developing our service infrastructure, which includes radioactive materials licensing, a staff of radiation safety officers and licensed clinicians, coordinated billing services and standardized lease agreements. We believe that our service infrastructure and know-how will support additional routes and imaging modalities in the future.

DIS has policies and procedures for the handling of radioactive materials, purchasing relationships, clinical training and quality assurance that we believe maximize operational efficiency and improve customer satisfaction. We have implemented a compliance plan that requires strict adherence to applicable state and federal regulations, including Medicare regulations. We also have an active quality assurance and

control program designed to optimize service and follow strict radiation safety and training programs. Our management team has developed experience in hiring and training clinical staff as well as providing quality services to our customers. We utilize proprietary software management tools that monitor key performance metrics in each of our routes, hubs and regions.

At our DIS hubs, technicians load the equipment, radiopharmaceuticals and other supplies onto specially equipped vans for transport to the physician's office, where the technicians set up the equipment for the day. After quality assurance testing, and under the physician's supervision, a technician will gather patient information, inject the patient with a radiopharmaceutical and then acquire the images for review by the physician. The technicians furnish the physician with applicable paperwork and billing information for all patients and clean the utilized areas before departing.

As of March 31, 2004, we provided FlexImaging leasing services to more than approximately 95% of our DIS customers under annual contracts for services delivered on a per-day basis. These contracts decrease our immediate and direct dependence on physician reimbursement. Under these agreements, physicians pay us a fixed amount for each day that they lease our equipment and personnel, and they commit to the scheduling of a minimum number of lease days during the one-year lease term. The same fixed payment amount is due for each day regardless of the number of patients seen or the reimbursement obtained by the physician. As of March 31, 2004, the remaining 5% of our DIS business was provided under our "mixed bill" option. Under this type of agreement, we provide the technical component of our services and bill either the physician or the patient's third-party payor, and so remain at direct risk for reimbursement. We also bill the patient for any co-payment.

We believe DIS allows us to avoid the often lengthy and sometimes unpredictable sales cycle associated with capital equipment sales in a hospital or physician practice setting, and provides us with recurring contractual revenue. Occasionally, DIS customers purchase our imaging systems. In addition, because we own the product that we lease, we are often able to translate technical camera improvements into increased margins in our DIS business.

Business Strategy

We intend to continue to expand our business, improve our market position and increase our revenues and profits by pursuing the following business strategies:

- *Continued Innovation in Solid-State Imaging Technology.* We intend to maintain our leadership position in solid-state imaging technology by continuing to invest resources in research and development. We believe we can continue to improve upon our existing technology to enhance image quality, maximize patient throughput, lower system cost and facilitate the ease of maintenance and repairs.

- *Expand Our DIS Business.* We plan to expand our DIS business into several new states, add new hub locations in states in which we currently operate and increase hub utilization with additional physician customers and routes. We also intend to pursue cardiology opportunities for DIS in hospitals and new clinical applications for DIS in neurology, oncology and surgery.

- *Increase Market Share in Camera Sales.* We believe that we can grow our market share by capitalizing on the recent trend of nuclear cardiology procedures shifting from the hospital to the physician office. We are also expanding our hospital sales and marketing efforts to capitalize on the increased demand for secondary mobile cameras.

- *Expand International Sales and Marketing Presence.* We intend to increase our presence internationally by entering into relationships with distributors that have the experience, expertise and service network to sell and support our products internationally. To date, our international sales have represented less than 1% of our revenue.

- *Drive Margin Improvements and Growth.* We plan to enhance our product margins by achieving operating efficiencies, reducing manufacturing costs and increasing product reliability. We also intend to leverage our technological advancements into improved performance and customer satisfaction in our DIS business.

Sales and Marketing

Our direct domestic sales organization consists of 26 sales representatives including 12 territory managers responsible for capital equipment sales and 14 imaging professionals responsible for DIS geographic regions. We select our sales representatives based on their expertise in nuclear imaging product sales and services. Each sales representative is subject to periodic performance reviews and is required to attend periodic sales and product training. We employ sales specialists to assist territory managers with in-office or on-site camera demonstrations. We intend to increase the number of sales representatives as we launch new products and services and to increase our marketing efforts with respect to existing products.

In addition to our direct sales force, we also sell our imaging systems in five states and Puerto Rico through three distributors and one independent sales agent. We select our distributors based on their expertise in imaging systems and sales coverage. These relationships provide the distributor the right to sell our products within the sales territory, and their sales representatives typically attend the same sales and product training as our own sales representatives.

We also have distributors in Canada and in Russia and are beginning to build an international sales organization focused on camera sales. These international distribution arrangements are exclusive within the designated countries. We have hired a dedicated international sales executive to establish relationships with additional distributors.

We often service our domestic customers remotely through high-speed Internet access and dial-up connections that facilitate system diagnosis without the need for field service or repair. When repair is required, our modular part replacement capability allows our field service engineers to perform field repairs that minimize customer downtime. We also employ applications specialists and a connectivity engineer to train our customers or provide technical support on the use of our products. We plan to engage outside service firms to support our international customers.

Manufacturing

We have been manufacturing our cameras since March 2000. The key components of our camera's mechanical and electrical systems are designed or configured by us, and include a personal computer (for both the camera and the stand alone workstations), cooling systems, liquid crystal display, controller boards and a data acquisition and communication system. Our manufacturing strategy combines our internal design expertise and proprietary process technology with strategic outsourcing. The key components of our camera's mechanical and electrical systems are designed or configured by us, and include a personal computer, power supplies, cooling system, liquid crystal display, controller boards and a data acquisition and communication system. These components are either outsourced to qualified manufacturers or built internally. We perform sub-assembly tests and final system performance tests packaging and labeling at our facility. We provide connectivity solutions which include consulting, configured computers and outsourced electronic image management systems. We also sell accessories which are outsourced and include printers, equipment for handling and measuring radioactive materials and software for the camera.

Suppliers of critical materials, components and subassemblies undergo ongoing quality certification by us. Most components used in the product are available from multiple sources; however, we do not currently maintain alternative manufacturing sources for certain components of the detector or for the acquisition and control software. For those components for which we have only a single source supplier, we

are currently qualifying or seeking secondary sources. We utilize enterprise resource planning and collaborative software to increase efficiency and security in handling of material and inventory, centralizing our purchasing procedures, monitoring our inventory supplies and streamlining our billing methods. Our outsourcing strategy is targeted at companies that meet the standards of the FDA and the International Organization for Standardization, or ISO.

We and our third-party manufacturers are subject to the FDA's Quality System Regulation, state regulations such as the regulations promulgated by the California Department of Health Services, and regulations promulgated by the European Union. We recently completed the process of relocating and consolidating our manufacturing to a new facility in nearby Poway, California that has been licensed by the California Food and Drug Branch. Our facilities and the facilities of our third-party manufacturers are subject to periodic unannounced inspections by regulatory authorities, and may undergo compliance inspections conducted by the FDA and corresponding state agencies.

In late 2004, we plan to initiate our ISO-13485 quality certification program with the expectation of receiving certification in 2005. ISO-13485 is a compilation of quality standards tailored for medical device manufacturers and promulgated by the ISO. A medical device manufacturer whose quality program has been certified to ISO requirements does not have to independently test each product that it sells in the European Union. ISO certification is required to sell our products in certain countries, however, we may not ever obtain such certification.

Research and Development

Our research and development staff currently consists of 17 employees. We have a long and extensive commitment to research and development, including an established history in developing innovative solid-state gamma cameras. In March 2000, we launched the first solid-state gamma camera for medical use and, in September 2002, we released the first dual-head, solid-state camera. In July 2003, we launched our third-generation detector that improved the reliability and sensitivity of our gamma cameras, and reduced their cost. We have an established core competency in the development of silicon photodiodes and related scintillator assemblies and signaling processing electronics, which are the core of our gamma cameras.

Our research and development efforts are primarily focused in the near term on developing further enhancements to our existing products as well as developing our next-generation products. Our objective is to increase the sensitivity and reliability of our imaging systems and their clinical and economic benefit to our physician customers and their patients.

Competition

The medical device industry, including the market for nuclear imaging systems and services, is highly competitive, subject to rapid change and significantly affected by new product and service introductions and market activities of other industry participants. In selling and leasing our imaging systems, we compete against several large medical device manufacturers, including Philips Medical Systems, General Electric Healthcare, Siemens 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, MRI, CT, ultrasound and nuclear medicine. The existing nuclear imaging systems sold by our competitors have been in use for a longer period of time than our products and are more widely recognized and used by physicians and hospitals for nuclear imaging. Many of our competitors and potential competitors enjoy significant competitive advantages over us, including:

- significantly greater name recognition and financial, technical and marketing resources;
- established relationships with healthcare professionals, customers and third-party payors;
- established distribution networks;

- additional lines of products and the ability to offer rebates or bundle products to offer discounts or incentives; and
- greater resources for product development, sales and marketing.

We are aware of certain major medical device companies that are attempting to develop solid-state gamma cameras, and we believe these efforts will continue. However, we are currently not aware of any other solid-state cardiac gamma camera. We are also aware of a privately-held company, Gamma Medica, which is currently marketing a solid-state gamma camera for breast imaging. We do not believe that this camera can be used in a cardiac application. However, we cannot assure you that Gamma Medica will not attempt to modify its existing camera for use in the cardiac segment in the future or develop another gamma camera for cardiac applications.

In providing our mobile leasing services, we also compete against businesses employing traditional vacuum tube cameras that must be transported in large trucks and cannot be moved in and out of physician offices. Competitive fixed-site services may require extensive or dedicated space and room renovations that result in increased start-up and ongoing costs.

Because of the size of the potential market, we anticipate that companies will dedicate significant resources to developing competing products and services, including a mobile leasing service. Current or future competitors may develop technologies and products that demonstrate better image quality, ease of use or mobility than our nuclear imaging systems. Our nuclear imaging systems or leasing services may be rendered obsolete or non-competitive by technological advances developed by one or more of our competitors. Our ability to compete successfully will depend on our ability to develop proprietary products that reach the market in a timely manner, receive adequate reimbursement and are safer, less invasive and less expensive than alternatives available for the same purpose.

We believe that the principal competitive factors in our market include:

- improved outcomes for nuclear imaging procedures;
- acceptance by physicians;
- ease of use, reliability and mobility;
- product price;
- qualification for reimbursement;
- technical leadership and superiority;
- effective marketing and distribution; and
- speed to market.

Intellectual Property

We rely on a combination of patent, trademark, copyright, trade secret and other intellectual property laws, nondisclosure agreements and other measures to protect our intellectual property. We believe that in order to have a competitive advantage, we must develop and maintain the proprietary aspects of our technologies. We require our employees, consultants and advisors to execute confidentiality agreements in connection with their employment, consulting or advisory relationships with us. We also require our employees, consultants and advisors who we expect to work on our products to agree to disclose and assign to us all inventions conceived during the work day, using our property, or which relate to our business. Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary.

Patents

We have developed a patent portfolio that covers our overall products, components and processes. As of March 31, 2004, we had 21 issued U.S. patents and 31 pending patent applications, including ten U.S.

applications, three international Patent Cooperation Treaty, or PCT, applications and 18 foreign applications seeking protection for selected patents in Japan, Canada and Russia. The issued and pending patents cover, among other things, aspects of solid-state radiation detectors including our photodiodes, signal processing, and system configuration. Our issued patents expire between December 23, 2014 and April 20, 2021. We have multiple patents covering unique aspects and improvements for many of our products. We have entered into a royalty-bearing license for one U.S. patent with a third party for exclusive use (subject to certain reservation of rights by the U.S. Government) in nuclear imaging. We do not believe that our current products implement the licensed patent and we are currently negotiating with the third-party licensor to amend the patent license.

In addition to our solid-state detector and photodiode technology patents, we hold specific patents for an alternative solid-state method using Cadmium Zinc Telluride, that we previously pursued for use in gamma cameras. While each of our patents applies to nuclear medicine, many also apply to the construction of area detectors for other types of medical imagers and imaging methods.

The medical device industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. Patent litigation can involve complex factual and legal questions and its outcome is uncertain. Any claim relating to infringement of patents that is successfully asserted against us may require us to pay substantial damages. Even if we were to prevail, any litigation could be costly and time consuming and would divert the attention of our management and key personnel from our business operations. Our success will also depend in part on our not infringing patents issued to others, including our competitors and potential competitors. If our products are found to infringe the patents of others, our development, manufacture and sale of such potential products could be severely restricted or prohibited. In addition, our competitors may independently develop similar technologies. Because of the importance of our patent portfolio to our business, we may lose market share to our competitors if we fail to protect our intellectual property rights.

As the number of entrants into our market increases, the possibility of a patent infringement claim against us grows. While we make an effort to ensure that our products do not infringe other parties' patents and proprietary rights, our products and methods may be covered by U.S. patents held by our competitors. In addition, our competitors may assert that future products we may market infringe their patents.

Further, a patent infringement suit brought against us may force us to stop or delay developing, manufacturing or selling potential products that are claimed to infringe a third party's intellectual property, unless that party grants us rights to use its intellectual property. In such cases, we may be required to obtain licenses to patents or proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all. Even if we were able to obtain rights to the third party's intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Ultimately, we may be unable to commercialize some of our potential products or may have to cease some of our business operations as a result of patent infringement claims, which could severely harm our business.

Trademarks

We have trademark registrations in the United States for the following marks: 2020*tc* Imager®, CardiusSST®, Digirad®, Digirad Logo®, Digirad Imaging Solutions®, FlexImaging®, and SPECTour®. We have trademark applications pending in the United States for the following marks: Cardius^{SM}, DigiServ^{SM}, DigiSpect^{SM}, DigiTech^{SM}, and Solidium^{SM}. We have obtained and sought trademark protection for some of these listed marks in the European Community and Japan.

Government Regulations

The healthcare industry, and thus our business, is subject to extensive federal, state, local and foreign regulation. Some of the pertinent laws have not been definitively 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.

Both federal and state governmental agencies are continuing heightened civil and criminal enforcement efforts in the healthcare industry. As indicated by work plans and reports issued by these agencies, the federal government will continue to scrutinize, among other things, the billing practices of healthcare providers. The federal government also has increased funding in recent years to fight healthcare fraud, and various agencies, such as the United States Department of Justice, the Office of Inspector General of the Department of Health and Human Services, or OIG, and state Medicaid fraud control units, are coordinating their enforcement efforts.

Compliance Program

The healthcare laws applicable to our business are complex and, as noted above, subject to variable interpretations. We implemented a compliance program in 2002 to help ensure that we remain in compliance with these laws. As part of that program, we have established a compliance committee consisting of senior management and legal counsel that meets regularly, established a compliance hotline that permits our personnel to report anonymously any compliance issues that may arise and instituted other safeguards intended to help prevent any violations of the Fraud and Abuse Laws discussed below and other applicable healthcare laws, and to remediate any situations that could give rise to violations. We also review our transactions and agreements, both past and present, to help assure they are compliant.

Like most companies with active and effective compliance programs, we occasionally discover compliance concerns. For example, we have discovered certain isolated arrangements that we entered into in good faith but that, upon review by our compliance personnel, raised some compliance concerns under these laws. In accordance with our compliance program, we took immediate remedial steps. We cannot assure you that these remedial steps will insulate us from liability associated with these isolated arrangements.

Through our compliance efforts, we constantly strive to structure our business operations and relationships with our customers to comply with all applicable legal requirements. However, it is possible that governmental entities or other third parties could interpret these laws differently and assert non-compliance with respect to these business operations and relationships including these isolated arrangements. While there have been no claims asserted against us, if a claim were asserted and we were not to prevail, possible sanctions could have a material effect on our financial statements or our ability to conduct our operations. We discuss below the statutes and regulations that are most relevant to our business and most frequently cited in enforcement actions.

Fraud and Abuse Laws

Anti-Kickback Statute

The federal Anti-Kickback Statute 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, arranging for or recommending a good or service, for which payment may be made in whole or part under a federal healthcare program such as the Medicare and Medicaid programs. The definition of "remuneration" has been broadly interpreted to include anything of value, including for example gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash and waivers of payments. Several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals or otherwise generate business involving goods or services reimbursed in whole or in part under federal healthcare programs, the statute has been violated. Penalties for violations include criminal penalties and

civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. In addition, some kickback allegations have been claimed to violate the Federal False Claims Act, discussed in more detail below.

The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements, the OIG has issued a series of regulations, known as the "safe harbors," beginning in July of 1991. These safe harbors set forth provisions that, if all their applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution 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 OIG.

Many states have adopted laws similar to the Anti-Kickback Statute. Some of these state prohibitions apply to referral of patients for healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs.

Government officials have focused their enforcement efforts on marketing of healthcare services, among other activities, and recently have brought cases against sales personnel who allegedly offered unlawful inducements to potential or existing customers in an attempt to procure their business. As part of our compliance program, we review our marketing materials and train our sales personnel to help assure compliance with the Anti-Kickback Statute.

In DIS, we offer lease agreements under which physicians lease our equipment and personnel, typically for one or two days a week, for a term of a year. Under this option, which comprises 93% of our DIS customers, our customers pay us the same fixed amount for each lease day regardless of the number of patients they see or the reimbursement they obtain. They also pay us for radiopharmaceuticals and pharmacological stress agents (collectively, "supplies") used in performing the tests.

Under a second contracting option, the "mixed bill" model, used by approximately 7% of our customers, we provide and are paid for services and supplies provided to physicians for their use in treating their privately insured patients. These physicians also refer Medicare patients to us, for whom we perform the technical component of nuclear imaging procedures and on whose behalf we bill the Medicare program directly. This type of arrangement, if not properly structured, could be construed to violate the Anti-Kickback Statute and also to raise 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 believe that we have structured our lease and "mixed bill" models, as well as our marketing program, to comply with the Anti-Kickback Statute and similar state laws, as well as with 42 U.S.C. Section 1320a-7(b)(6). However, we cannot rule out the possibility that the government or other third parties could interpret these laws differently and assert otherwise.

Stark Law

The Ethics in Patient Referral Act of 1989, commonly referred to as the federal physician self-referral law or Stark Law, prohibits physician referrals of Medicare patients to an entity for certain "designated health services" if the physician or an immediate family member has an indirect or direct financial relationship with the entity and no statutory or regulatory exception applies. Financial relationships include an ownership interest in, or compensation arrangement with, the entity. It also prohibits an entity receiving a prohibited referral from billing and collecting for services rendered pursuant to such referral. "Designated health services" under Stark include inpatient and outpatient hospital services, radiology services, magnetic resonance imaging, computerized axial tomography scans, ultrasound services and outpatient prescription drugs. The Health Care Financing Administration, now known as the Centers for

Medicare and Medicaid Services, or CMS, indicated in a final rule issued in 2001 that nuclear medicine is not covered as a designated healthcare service under the Stark Law. CMS has also indicated that radiopharmaceuticals and pharmacological stress agents used in nuclear imaging procedures do not constitute designated healthcare services. However, it is possible that CMS may change its interpretation in the future to include nuclear imaging and/or one or both of these supplies as designated healthcare services under the Stark Law. Should that occur, we believe the financial relationships we have with our physician customers fall within one or more exceptions to the prohibition on referrals. Therefore, we do not believe the physicians would be prohibited from referring Medicare patients to us. However, we cannot rule out the possibility that the government or other third parties could interpret these laws differently and assert otherwise.

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 the Stark Law is subject to monetary penalties of up to $15,000 per claim submitted, an assessment of several times the amount claimed, and possible exclusion from participation in federal healthcare programs. In addition, claims submitted in violation of the Stark Law may be alleged to 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 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. Some of these statutes cover all patients and are not limited to Medicare beneficiaries. 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, in a few states, are more restrictive than the federal Stark Law. Some states have indicated they will interpret their own self-referral statutes the same way that CMS interprets the Stark Law, but it is possible the states will interpret their own laws differently in the future. We believe that we have structured our operations to comply with these state physician self-referral prohibition laws in the jurisdictions in which we operate. However, we cannot rule out the possibility that the government or other third parties could interpret these statutes differently and assert otherwise. In certain states in which we do not yet operate, these laws may add considerable expense to or limit altogether the types of business models we may successfully utilize.

HIPAA

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, 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.

In addition to creating the two new federal healthcare crimes, HIPAA also establishes uniform standards governing the conduct of certain electronic healthcare transactions and protecting the security and privacy of individually identifiable health information maintained or transmitted by healthcare providers, health plans and healthcare clearinghouses. Two standards have been promulgated under HIPAA with which we currently are required to comply. We must comply with the Standards for Privacy of Individually Identifiable Health Information, which restrict our use and disclosure of certain individually identifiable health information. We have been required to comply with the Privacy Standards since April 14, 2003. We must also comply with the Standards for Electronic Transactions, which establish standards for common healthcare transactions, such as claims information, plan eligibility, payment information and the use of electronic signatures. We have been required to comply with these Standards

since October 16, 2003. We believe that we are in compliance with these standards. Two other standards relevant to our use of medical information have been promulgated under HIPAA, although our compliance with these standards is not yet required. The Security Standards will require us to implement certain security measures to safeguard certain electronic health information by April 21, 2005. In addition, CMS recently published a final rule, which will require us to adopt Unique Health Identifiers for use in filing and processing healthcare claims and other transactions by May 23, 2007. While the government intended this legislation to reduce administrative expenses and burdens for the healthcare industry, our compliance with this law may entail significant and costly changes for us. If we fail to comply with these standards, we could be subject to criminal penalties and civil sanctions.

In addition to federal regulations issued under HIPAA, some states have enacted privacy and security statutes or regulations that, in some cases, are more stringent than those issued under HIPAA. In those cases, it may be necessary to modify our operations and procedures to comply with the more stringent state laws, which may entail significant and costly changes for us. We believe that we are in compliance with such state laws and regulations. However, if we fail to comply with applicable state laws and regulations, we could be subject to additional sanctions.

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" or "qui tam" provisions. Those provisions allow a private individual to bring actions on behalf of the government alleging that the defendant has defrauded the federal government. The government must decide whether to intervene in the lawsuit and to become the primary prosecutor. If it declines to do so, the individual may choose to pursue the case alone, 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 individual's litigation is successful, the individual is entitled to no less than 15%, but no more than 30%, of whatever amount the government recovers. In recent years, the number of suits brought against healthcare providers by private individuals has increased dramatically. In addition, various states have enacted laws modeled after the federal False Claims Act.

When an entity is determined to have violated the federal False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus 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. The False Claims Act has been used to assert liability on the basis of inadequate care, improper referrals, and improper use of Medicare numbers when detailing the provider of services, in addition to the more predictable allegations as to misrepresentations with respect to the services rendered. We are unable to predict whether we could be subject to actions under the False Claims Act, or the impact of such actions. However, the costs of defending claims under the False Claims Act, as well as sanctions imposed under the Act, could significantly affect our financial performance.

Billing and Reimbursement

DIS

Reimbursement to physicians for nuclear imaging tests consists of both a "technical component" (i.e., the actual performance of the test) and a "professional component" (i.e., the interpretation of the test, sometimes referred to as a "read" of the test). Physicians may bill for the professional component if they perform and document a bona fide interpretation. Medicare and certain other payors permit providers who perform both the technical and professional components to either bill "globally" for both components of the tests, if applicable requirements are met, or to bill for the technical component and professional component separately. In our lease model, our physician customers bill globally for both the technical and

professional components of the tests. Assuming they meet certain requirements, including but not limited to adequate supervision of the non-physician personnel performing the tests, they may bill and be paid by Medicare according to the Medicare Physician Fee Schedule.

Under our "mixed bill" model, we provide the technical component of nuclear imaging services and bill either the physician (who, in turn, bills the patient or third-party payor) or, if the patient is a Medicare patient, the Medicare program. For those services we bill directly, our Medicare payment is based on the Medicare Physician Fee Schedule and we bill the patient for any co-payment. The physician performs and bills the payor for the professional component for all patients, including the interpretation of the test. In our lease agreement model, we derive our revenues directly and only from customer physicians. In our "mixed bill" model, we derive revenues from Medicare, as well as direct billings to physicians.

Medicare has delegated the functions of enrollment and payment 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 set forth uniform rules governing independent testing diagnostic facility, billing and enrollment, each carrier is free to interpret these rules to a certain extent. For example, an independent testing diagnostic 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 expense to or limit the types of business models we may be able to utilize successfully in the carrier's jurisdiction. At present, we are licensed as independent testing facilities in nine states and perform independent testing diagnostic facility services in five states.

Services for which we and our customer physicians bill Medicare typically are reimbursed according to the Medicare Physician Fee Schedule that assigns a specified value to each procedure or supply, which are identified according to numeric codes. Medicare revises this Physician Fee Schedule on an annual basis. Under the Medicare Modernization Act, the Physician Fee Schedule payment rates for 2004 were increased, instead of reduced as expected prior to the legislation. The payment methodology to physician practices for drugs were changed, and some payment rates decreased. If the amounts payable under the Physician Fee Schedule or payments for supplies decreases under prescribed payment methodologies, we may receive less revenue from Medicare under our mixed bill model. Similarly, our physician customers may receive less revenue for the tests they perform under our lease model, which may adversely affect the amount we can charge physicians who enter into new lease agreements or renew existing agreements.

We also lease our cameras to hospitals. The payment policies implemented by state and federal reimbursement programs for hospitals affect demand for our leasing services business by hospitals. Medicare, the single largest third-party payor in the United States, which pays certain hospitals for imaging services using our products, generally pays for inpatient services under a prospective payment system, or PPS. Under PPS, hospitals receive a fixed amount for each Medicare patient discharge for inpatient services. Each discharge is classified into one of many diagnosis related groups corresponding to the patient's condition. The payment amount assigned to each diagnosis related group reimburses the hospital for inpatient operating costs, regardless of the services actually provided or the length of the patient's stay. Hospital capital-related costs, including investments in depreciable equipment also is paid under a PPS methodology. Although there may be opportunities to obtain additional amounts for certain high-cost new technologies in the inpatient setting, under this PPS payment methodology, Medicare does not separately reimburse hospitals for services performed using our cameras, since payment for this service is included in the diagnosis related group payment amount. Many state Medicaid programs and private payors have adopted comparable payment policies.

Medicare pays for hospital outpatient services under the outpatient prospective payment system. Under this system, services and items furnished in hospital outpatient departments are reimbursed using a pre-determined amount for each ambulatory payment classification. Each ambulatory payment classification groups together similar services comparable both clinically and with respect to the use of resources. Certain items and services are paid based on a fee schedule, and hospitals are reimbursed

additional amounts for certain drugs, biologics and new technologies. Under the Medicare Modernization Act, revisions were made to the payment methodology for radiopharmaceuticals and drugs used with our cameras, which resulted in the increase of some and decrease of other payment rates to hospitals for these supplies. We cannot predict the extent to which the payment methodology changes will have an impact on our revenue or business, if any.

We believe we have structured our DIS contracts so that physicians and hospitals are able to bill in this manner if they comply with the terms of the contracts and the requirements of applicable radioactive materials laws are met. However, if any of our customer physicians are deemed not to meet these conditions, payment to the affected physicians could be reduced, 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 under the False Claims Act and other statutes. This may require us to restructure our agreements with these physicians and/or respond to any resultant claims by physicians or the government.

Camera Sales

We currently sell cameras to physicians, physician groups or medical groups. Physicians who perform or supervise nuclear imaging procedures in their offices are reimbursed by Medicare under the Physician Fee Schedule, assuming applicable requirements are met. Physicians are also reimbursed for the supplies they use in performing these procedures. The payment policies implemented by state and federal reimbursement programs for physicians affect demand for our cameras. We also sell cameras to hospitals. The payment policies implemented by state and federal reimbursement programs for hospitals affect demand for our cameras. The same rules and regulations concerning reimbursement for inpatient and outpatient services that apply to our hospital leases also apply to our sales of cameras to hospitals.

Non-Governmental Third-Party Payor Limitations

Non-governmental managed-care payors, such as health maintenance organizations, preferred provider organizations, and certain other insurers, often impose varying requirements and limitations on the ability of diagnostic test providers such as our lease services division to receive payment directly for the services they provide. For example, some payors will not reimburse a provider of nuclear imaging services for the tests it performs unless the provider has a contract with the payor, and in many instances such payors will not enter into such contracts. On the other hand, most of these payors currently will provide reimbursement on a "global" basis to a physician who has a contract with the payor and who supervises or performs the test and provides the professional interpretation. Such payor requirements and limitations restrict the types of business models we can successfully utilize for patients covered by these payors, but currently do not preclude us from successfully implementing our lease and mixed bill models. However, we cannot rule out the possibility that some of these payors will impose new requirements or limitations in the future that could adversely affect these models and require us to develop new models.

Pharmaceutical Laws

Our lease services business involve administering and furnishing radiopharmaceuticals and pharmacological stress agents, which are regulated as drugs by state and federal agencies, including the FDA and state pharmacy boards. These agencies administer laws governing the manufacturing, sale, distribution, use, administration and prescribing of drugs, including the federal Food, Drug and Cosmetic Act, state food and drug laws and state pharmacy acts. Some of our activities may be deemed by relevant agencies to require permits or licensure under these laws that we currently do not possess. If any of these agencies deemed our activities to require such 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). In either case, we would incur substantial expense and could encounter substantial operational burdens.

Radioactive Materials Laws

The procurement, use, transfer and storage of radioactive materials is subject to comprehensive regulation under state and federal laws. In some states, the federal Nuclear Regulatory Commission, or NRC, directly regulates such use (NRC States). In other states, a state regulatory agency performs such regulation under an agreement with the federal government (Agreement States). In both Agreement and NRC States, the use of radioactive materials requires licensure and compliance with comprehensive rules governing such licensure.

Because our DIS business entails the use of radiopharmaceuticals in performing nuclear medicine tests, we are required to obtain and maintain licensure under radioactive materials laws, or RAM laws, and to comply with such laws. The RAM laws require, among other things, that such materials be used by, or that their use be supervised by, individuals with specified training, expertise and credentials in the type of use in question. Such individuals are known as "authorized users."

The RAM laws include specific provisions applicable to the medical use of radioactive materials. For a business such as ours, the authorized user must be a physician with training and expertise in the use of radioactive materials for diagnostic purposes. We have entered into contracts with qualified physicians in each of our regions to serve as authorized users.

In some states, the authorized user is required to participate in or oversee the selection of patients and the ordering of procedures and/or supplies. Some states also required that an authorized user perform an interpretation of the nuclear medicine tests. The authorized user need not be present at the customer physician's site to perform such functions.

Under the RAM laws, physicians who are not licensed authorized users, but who are supervised by an authorized user on behalf of a licensed entity, are permitted to use radioactive materials under the authority of such licensure, if certain conditions are met. Because our physician customers in our lease services business are not licensees and in most cases are not qualified to serve as authorized users, they perform nuclear medicine procedures as "supervised persons." To the extent required by applicable RAM laws, the authorized users perform some of the functions described above. For example, in states where an authorized user must perform an interpretation to satisfy RAM licensing laws, an authorized user does so. The physician customer reimburses the authorized user for doing so and also performs his or her own interpretation.

We believe that we have structured our operations so that they comply with applicable RAM laws in the jurisdictions in which we operate, and that the manner in which we comply with these laws is also consistent with applicable Medicare requirements. However, we cannot rule out the possibility that the government or other third parties could interpret these laws differently and assert otherwise.

Medical Device Regulation

Our products are medical devices subject to extensive regulation by the FDA and other regulatory bodies. FDA regulations govern, among other things, the following activities that we or our partners perform and will continue to perform:

- product design and development;
- product testing;
- product manufacturing;
- product labeling;
- product storage;
- recordkeeping;
- premarket clearance or approval;
- advertising and promotion; and
- product sales and distribution.

Unless an exemption applies, each medical device we wish to commercially distribute in the United States will require either prior 510(k) clearance or prior premarket approval, or PMA, from the FDA. The FDA classifies medical devices into one of three classes, depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Devices deemed to pose lower risk are placed in either class I or II, which requires the manufacturer to submit to the FDA a premarket notification requesting permission for commercial distribution. This process is known as 510(k) clearance. Some low-risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or a device deemed not substantially equivalent to a previously cleared 510(k) device, are placed in class III. In general, a class III device cannot be marketed in the United States unless the approves the device after submission of a PMA.

510(k) Clearance Pathway

When we are required to obtain a 510(k) clearance for a device which we wish to market, we must submit a premarket notification to FDA demonstrating that the device is substantially equivalent to a previously cleared 510(k) device or a device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of PMA applications. By regulation, the FDA is required to respond to a 510(k) premarket notification within 90 days of submission of the notification. As a practical matter, clearance can take significantly longer. If FDA determines that the device, or its intended use, is not substantially equivalent to a previously-cleared device or use, the FDA will place the device, or the particular use of the device, into class III.

After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design or manufacture, will require a new 510(k) clearance or could require a PMA. The FDA requires each manufacturer to make this determination initially, but the FDA can review any such decision and can disagree with a manufacturer's determination. If the FDA disagrees with a manufacturer's determination that a new clearance or approval is not required for a particular modification, the FDA can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or PMA is obtained. If the FDA requires us to seek 510(k) clearance or PMA for any modifications to a previously cleared product, we may be required to cease marketing or recall the modified device until we obtain this clearance or approval. Also, in these circumstances, we may be subject to significant regulatory fines or penalties. We have made and plan to continue to make additional product enhancements to our gamma cameras that we believe do not require new 510(k) clearances.

Premarket Approval Pathway

A PMA application must be submitted if the device cannot be cleared through the 510(k) process. The PMA process is much more demanding than the 510(k) premarket notification process. A PMA application must be supported by extensive data including, but not limited to, technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to the FDA's satisfaction the safety and effectiveness of the device.

After a PMA application is complete, the FDA begins an in-depth review of the submitted information. The FDA, by statute and regulation, has 180 days to review an accepted PMA application, although the review generally occurs over a significantly longer period of time, and can take up to several years. During this review period, the FDA may request additional information or clarification of information already provided. Also during the review period, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. In addition, the FDA will conduct a preapproval inspection of the manufacturing facility to ensure compliance with the Quality System Regulation. New PMA applications or PMA application supplements are required for significant modifications to the manufacturing process, labeling and design of a device that is approved through the PMA process. PMA supplements often

require submission of the same type of information as a PMA application, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA application, and may not require as extensive clinical data or the convening of an advisory panel.

Clinical Trials

A clinical trial is almost always required to support a PMA application and is sometimes required for a 510(k) premarket notification. These trials generally require submission of an application for an investigational device exemption to the FDA. The investigational device exemption application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The investigational device exemption application must be approved in advance by the FDA for a specified number of patients, unless the product is deemed a non-significant risk device and eligible for more abbreviated investigational device exemption requirements. Clinical trials for a significant risk device may begin once the investigational device exemption application is approved by the FDA and the appropriate institutional review boards at the clinical trial sites. Our clinical trials must be conducted in accordance with FDA regulations. The results of clinical testing may not be sufficient to obtain approval of the product.

Pervasive and Continuing FDA Regulation

After a device is placed on the market, numerous regulatory requirements apply. These include:

- Quality System Regulation, which requires manufacturers to follow design, testing, control, documentation and other quality assurance procedures during the manufacturing process;
- labeling regulations, which prohibit the promotion of products for unapproved or "off-label" uses and impose other restrictions on labeling; and
- medical device reporting, regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur.

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions:

- fines, injunctions, and civil penalties;
- recall or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing our request for 510(k) clearance or PMA of new products;
- withdrawing 510(k) clearance or PMAs that are already granted; and
- criminal prosecution.

We are subject to unannounced inspections by the FDA and the Food and Drug Branch of the California Department of Health Services, and these inspections may include the manufacturing facilities of our subcontractors.

International

International sales of medical devices are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA approval, and the requirements may differ.

The primary regulatory environment in Europe is that of the European Union, which consists of 15 countries encompassing most of the major countries in Europe. Other countries, such as Switzerland, have voluntarily adopted laws and regulations that mirror those of the European Union with respect to medical devices. The European Union has adopted numerous directives and standards regulating the design,

manufacture, clinical trials, labeling, and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking, indicating that the device conforms with the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout Europe. CE is an abbreviation for European Compliance. The method of assessing conformity varies depending on the class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a "Notified Body." This third-party assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's product. An assessment by a Notified Body in one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union. In 2001, we were certified by TUV Product Service, a Notified Body, under the European Union Medical Device Directive allowing the CE conformity marking to be applied.

Our current products are approved for market release by the FDA. We also received regulatory approval from the Japanese Ministry of Health in October 2000, which is similar to our FDA Establishment Registration. In March 2003, we received GOST certification, the quality and safety certification system administered by the Russian committee, Gosstandart, to distribute the 2020*tc*/SPECTour chair in Russia.

Employees

As of March 31, 2004, we had a total of 316 employees, of which 150 were employed in clinical and regulatory, 75 in operations, 40 in general and administrative, 34 in sales and marketing and 17 in research and development. We had a total of 180 employees in our DIS subsidiary. None of our employees is represented by a labor union. We have not experienced any work stoppages and consider our employee relations to be good. We are, however, aware of a claim by one former employee and three current employees that they are due unpaid overtime because of an alleged misclassification of their positions as exempt rather than non-exempt employees. For a further discussion, see "Risk Factors—Risks Related to Our Intellectual Property and Potential Litigation—We may be subject to lawsuits and actions brought by our employees."

Facilities

Our operations are headquartered in an approximately 70,000 square foot facility in Poway, California that is leased to us until February 2010. We believe that our existing facility is adequate for our current needs.

Legal Proceedings

We are currently not a party to any material legal proceedings.

MANAGEMENT

Executive Officers, Key Employees and Directors

The following table sets forth certain information regarding our executive officers, key employees and directors:

Name	Age	Position(s)
David M. Sheehan	41	President, Chief Executive Officer and Director
Todd P. Clyde	35	Chief Financial Officer
Vera P. Pardee	47	Vice President, General Counsel and Secretary
Diana M. Bowden	42	Vice President of Marketing
Herbert J. Bellucci	54	Senior Vice President of Operations
Paul J. Early	68	Vice President and Corporate Radiation Safety Officer
Richard L. Conwell	53	Vice President, Advanced Research and Development and Business Development
Martin B. Shirley	41	Regional Vice President of Sales, East
Stephen L. Bollinger	45	Regional Vice President of Sales, West
Timothy J. Wollaeger(1)(3)	60	Chairman of the Board of Directors
Raymond V. Dittamore(2)(3)	61	Director
Robert M. Jaffe	52	Director
R. King Nelson(1)(2)	47	Director
Kenneth E. Olson(2)(3)	67	Director
Douglas Reed, M.D.	50	Director

(1) Member of the compensation committee

(2) Member of audit committee

(3) Member of the corporate governance committee

David M. Sheehan has served as our President and Chief Executive Officer since March 2002 and as a member of our board of directors since July 2002. Mr. Sheehan joined us in September 2000 as President of Digirad Imaging Solutions, Inc., our wholly owned subsidiary. From May 1999 to September 2000, Mr. Sheehan served as the President and Chief Executive Officer of Rapidcare.com, an e-health company. From May 1997 to May 1999, he served as Vice President of Sales, Marketing, and Business Development of a division at Baxter International, Inc. that provided cardiopulmonary products and services to hospitals. Prior to this, he held operations, sales and marketing positions at Haemonetics Corporation, a supplier of blood processing equipment and services. Mr. Sheehan received his B.S. in mechanical engineering from Worcester Polytechnic Institute and his M.B.A. from the Tuck School of Business at Dartmouth College.

Todd P. Clyde has served as our Chief Financial Officer since November 2002. From January 2002 to November 2002, Mr. Clyde was Chief Financial Officer at Del Mar Database, Inc., a software company developing products for the mortgage lending industry. From March 2000 to October 2001, Mr. Clyde was Vice President and Controller at Verance Corporation, a digital information tracking and security company. From October 1997 to March 2000, Mr. Clyde was Vice President and Division Controller at I-Bus/Phoenix, a division of Maxwell Technologies, Inc. which is a manufacturer of customized industrial computing. Prior to this, he was a senior auditor at Ernst & Young, LLP, an international public accounting firm. Mr. Clyde received his B.S. in accounting and his Masters of Accountancy from Brigham Young University. Mr. Clyde is a Certified Public Accountant.

Vera P. Pardee has served as our Vice President, General Counsel and Secretary since April 2003. From July 2000 to February 2002, Ms. Pardee served as Vice President, General Counsel and Secretary of Nanogen, Inc., a biotechnology company developing molecular diagnostic tests for the clinical research and

diagnostics markets. From January 1988 to June 2001, Ms. Pardee was in private practice as a partner and associate at Seltzer Caplan Vitek McMahon and from 1983 to 1987 as an associate at O'Melveny & Myers, LLP. Ms. Pardee received her J.D. from Southwestern University School of Law.

Diana M. Bowden has served as our Vice President of Marketing since September 2002. From June 2001 to August 2002, Ms. Bowden served as Director of Marketing with our wholly-owned subsidiary, Digirad Imaging Solutions. From August 2000 to June 2001, Ms. Bowden served as Director of Marketing at Keylime Software, Inc., a web analytics company. From May 1998 to May 2000, she served as Director of Sales and Marketing at Ultra Acquisition Corporation, an e-commerce and manufacturing company. From June 1994 to May 1998, Ms. Bowden served as Vice President, Sales and Marketing at RadNet, a radiology service provider. Prior to this she served in various product management and sales management positions at Quest Diagnostics Incorporated, a large medical reference laboratory, and in sales and marketing positions at Iolab, a former Johnson & Johnson pharmaceutical company. She received her B.A. in biological sciences from U.C. Santa Barbara and her M.B.A. in marketing from the Peter Drucker Graduate School of Management of the Claremont Graduate University.

Herbert J. Bellucci has served as our Senior Vice President, Operations since May 2003. From April 1994 to April 2003, Mr. Bellucci was Vice President of Manufacturing at Omnicell, a company that manufactures electromechanical dispensing systems for drugs and hospital supplies. Prior to this, he was Senior Vice President of Operations at Laserscope, a manufacturer of minimally invasive surgical devices, Vice President of Operations at Vidamed, a medical device company, and Manufacturing Manager at Spectra-Physics, a division of Thermo Electric Corporation which is a supplier of laser technology. Mr. Bellucci received his B.S. in engineering from Brown University and his M.B.A. from Stanford University.

Paul J. Early has served as our Vice President and Corporate Radiation Safety Officer since March 2001. Prior to joining us, Mr. Early was the President of Associates at Medical Physics, the scientific journal of the American Association of Physicists in Medicine. Mr. Early is the author of multiple books, including the nuclear medicine textbook "Textbook of Nuclear Medicine Technology." Mr. Early is a Diplomat of the American Board of Medical Physics, the American Board of Science in Nuclear Medicine and the American Board of Radiology. Mr. Early received his B.S. from St. Ambrose University and completed two years of post-graduate studies at Creighton University.

Richard L. Conwell has served as our Vice President of Advanced Research and Development and Business Development since August 2001. Prior to that, he served as our Vice President of Marketing from January 2001 to August 2001, as Vice President of Research and Development and Marketing from March 2000 to January 2001, and as Vice President of Research and Development from June 1996 to March 2000. Prior to joining us, Mr. Conwell was 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 his B.S. in physics and computer science from Ball State University.

Martin B. Shirley has served as our Regional Vice President of Sales, East since July 2002. Prior to that, Mr. Shirley served as a Regional Sales Director for us from January 2001 to January 2002, and as a Territory Manager for us from January 2000 to January 2001. From March 1999 to December 1999, he was a principal of IsoPoint, Inc., a software company, where he was responsible for sales and contracting. Prior to this, Mr. Shirley was Regional Sales Manager at SMV America, Inc., a manufacturer of gamma cameras that was purchased by General Electric, and a Territory Manager for Dupont in their radiopharmaceutical business. Prior to this, Mr. Shirley spent five years as a Certified Nuclear Technologist. Mr. Shirley received his A.S. in nuclear medicine technology from Hillsborough Community College and his A.A. in liberal arts from Santa Fe Community College.

Stephen L. Bollinger has served as our Regional Vice President of Sales, West since July 2002. From February 2002 to July 2002, Mr. Bollinger served as our Western Regional Sales Director. From

October 2000 to February 2002 Mr. Bollinger worked at Data Return Corporation, a company that provides managed website hosting services, as Western Regional Sales Manager. From June 1986 to September 2000, Mr. Bollinger was a West Coast Regional Sales Manager for Kodak's medical imaging products division. Mr. Bollinger received his B.S. from University of Phoenix and his M.B.A. from University of Colorado.

Timothy J. Wollaeger has served as a member of our board of directors since April 1994 and as our Chairman since January 1996. Mr. Wollaeger has been the Managing Director for the San Diego office of Sanderling Biomedical Venture Capital since April 2002. He is also a general partner of Kingsbury Associates, L.P., a venture capital firm he founded in January 1994, which focuses on investments in the healthcare industry. From May 1990 to 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. He is Chairman of the board of directors of Biosite Incorporated and a founder and director of several privately held medical products companies. Mr. Wollaeger received his B.A. in economics from Yale University and his M.B.A. from the Stanford University Graduate School of Business.

Raymond V. Dittamore has served as a member of our board of directors since March 2004. Mr. Dittamore is a retired audit partner of Ernst & Young, LLP, an international public accounting firm. Mr. Dittamore retired after 35 years of service, including 14 years as the managing partner of the firm's San Diego office. Mr. Dittamore is a director of Qualcomm Incorporated, Invitrogen Corporation and Gen-Probe Incorporated. Mr. Dittamore received his B.S. from San Diego State University.

Robert M. Jaffe has served as a member of our board of directors since June 2002. He is a founder and investment officer of Sorrento Associates. Prior to founding Sorrento Associates in 1985, he was an investment banker at Merrill Lynch Capital Markets. Prior to this, he was an investment banker at Salomon Brothers, Inc. and Goldman, Sachs & Co. He was also a member of the technical staff at Hughes Aircraft Company and a consultant at McKinsey & Co. Mr. Jaffe received his M.B.A. from the Harvard Business School where he was a Baker Scholar and the recipient of The Loeb Rhoades Fellowship. He received his M.S. in electrical engineering from the California Institute of Technology, and his B.S. in electrical engineering and computer science from the University of California at Berkeley.

R. King Nelson has served as a member of our board of directors since March 2004 and previously served as a director from May 2000 to April 2002. From May 1999 to December 2003, Mr. Nelson served as the President and Chief Executive Officer of VenPro Corporation, a medical device company that develops bioprosthetic implants for venous vascular and cardiovascular medicine. From January 1980 to December 1998, Mr. Nelson held various executive positions at Baxter Healthcare Corporation, most recently as President of the perfusion service business. Mr. Nelson received his B.S. from Texas Tech University and his M.B.A. in international business from the University of Miami.

Kenneth E. Olson has served as a member of our board of directors since March 1996. From June 1984 to June 1998, he served as Chairman, and from December 1990 to February 1996 and from March 1997 to June 1998, he served as Chief Executive Officer, at Proxima Corporation, a supplier of digital imaging systems. From 1971 to 1987, he was Chairman and Chief Executive Officer of Topaz, Inc., a designer and manufacturer of computer peripherals. Mr. Olson also serves on the board of directors for Avanir Pharmaceuticals and WD-40 Company. He studied electrical engineering at UCLA and received his M.B.A. from Pepperdine University.

Douglas Reed, M.D. has served as a member of our board of directors since August 2000. He has been a Managing Director of Vector Fund Management, a venture capital firm which focuses on investments in the life sciences and healthcare industry since June 2000. From October 1998 to January 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. Prior to this, 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 is board certified as a neuroradiologist and has held faculty positions at the University of Washington and Yale University in the department of radiology. Dr. Reed received his B.A. in biology and M.D. from the University of Missouri—Kansas City, and his M.B.A. from the Wharton School at the University of Pennsylvania.

Board Composition

Our board of directors currently consists of seven directors, each of whom has been elected to serve a one year term. Our directors hold office until their successors have been elected and qualified or until their earlier death, resignation, disqualification or removal for cause by the affirmative vote of the holders of a majority of the outstanding stock entitled to vote on election of directors. Mr. Jaffe, who currently serves as a member of our board of directors, has submitted his resignation which will become effective immediately prior to the effectiveness of this offering. Upon his resignation, one of our authorized board seats will be vacant.

Board Committees

Our board of directors has an audit committee, a compensation committee and a corporate governance committee.

Audit Committee

Our audit committee oversees our corporate accounting and financial reporting process. The audit committee consists of Mr. Dittamore, Mr. Nelson and Mr. Olson, each of whom is an independent member of our board of directors as defined by applicable Securities and Exchange Commission, or SEC, rules and the Nasdaq National Market listing standards. The functions of this committee include, among other things:

- meeting with our management periodically to consider the adequacy of our internal controls and the objectivity of our financial reporting;
- meeting with our independent auditors and with internal financial personnel regarding these matters;
- recommending to our board of directors the engagement of our independent auditors;
- reviewing our audited financial statements and reports and discussing the statements and reports with our management, including any significant adjustments, management judgments and estimates, new accounting policies and disagreements with management; and
- reviewing our financial plans and reporting recommendations to our full board for approval and to authorize action.

Both our independent auditors and internal financial personnel regularly meet privately with our audit committee and have unrestricted access to this committee.

Compensation Committee

Our compensation committee consists of Mr. Nelson and Mr. Wollaeger, each of whom is a non-management member of our board of directors. The functions of this committee include, among other things:

- reviewing and, as it deems appropriate, recommending to our board of directors, policies, practices and procedures relating to the compensation of our directors, officers and other managerial employees and the establishment and administration of our employee benefit plans;
- exercising authority under our employee benefit plans; and
- advising and consulting with our officers regarding managerial personnel and development.

Corporate Governance Committee

Our corporate governance committee currently consists of Mr. Dittamore, Mr. Olson and Mr. Wollaeger, each of whom is a non-management member of our board of directors. The functions of this committee include, among other things:

- reviewing and recommending nominees for election as directors;
- assessing the performance of the board of directors;
- developing guidelines for board composition; and
- reviewing and administering our corporate governance guidelines and considering other issues relating to corporate governance.

We currently pay our directors $4,000 for attending in-person board meetings and $500 for attending board meetings telephonically. In addition, we also currently pay our directors $1,000 for attending in-person committee meetings and $500 for attending telephonic committee meetings. In addition, directors are reimbursed for reasonable out-of-pocket expenses in connection with attending meetings of our board of directors and committees of the board of directors. In 2003, none of our non-employee directors were granted options to purchase our common stock.

Effective upon the completion of this offering, we will adopt our 2004 Non-Employee Directors' Stock Option Program to provide for the automatic grant of options to purchase 10,000 shares of common stock to non-employee directors who join the board of directors after the completion of this offering, and annual grants of 5,000 shares of our common stock to each of our non-employee directors. In addition, all of our directors are eligible to participate in our 2004 Stock Incentive Plan. For a more detailed description of these plans, see "Benefit Plans."

Compensation Committee Interlocks And Insider Participation

Except for Mr. Wollaeger's unpaid service to us as Chief Executive Officer during part of May 1999, no member of our compensation committee has ever been an officer or employee of ours. None of our executive officers currently serve, or has served during the last completed fiscal year, on the compensation committee or board of directors of any other entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Executive Compensation

The following table provides information regarding the compensation earned during the fiscal year ended December 31, 2003 by our Chief Executive Officer and our other four most highly compensated executive officers. We refer to our Chief Executive Officer and these other executive officers as our "named executive officers" in this prospectus.

Summary Compensation Table

Name and Principal Position	Annual Compensation		Long-Term Compensation	
	Salary	Bonus(1)	Securities Underlying Options(#)	Other Compensation(2)
David M. Sheehan *President, Chief Executive Officer and Director*	$ 216,538	$ 37,500	—	—
Todd P. Clyde *Chief Financial Officer*	170,000	22,000	—	—
Diana M. Bowden *Vice President of Marketing*	134,251	12,000	—	—
Martin B. Shirley *Regional Vice President of Sales, East*	203,867	—	—	—
Stephen L. Bollinger *Regional Vice President of Sales, West*	184,287	—	—	—

(1) These amounts represent bonuses earned during the fiscal year ended December 31, 2003. Annual bonuses earned during a fiscal year are paid in the first quarter of the subsequent fiscal year.

(2) In accordance with the rules of the Securities and Exchange Commission, the other annual compensation described in this table does not include various perquisites and other personal benefits received by a named executive officer that do not exceed the lesser of $50,000 or 10% of such officer's salary and bonus disclosed in this table.

Stock Option Grants in Last Fiscal Year

During the fiscal year ended December 31, 2003, we granted stock options to purchase 285,589 shares of our common stock under our 1998 Stock Option/Stock Issuance Plan, including grants to executive officers. No grants of stock options were made to any of the named executive officers during 2003. All options were granted at the fair market value of our common stock as determined by our board of directors or compensation committee, as applicable, on the date of grant. Generally, 25% of the shares subject to options vest one year from the date of hire and the remainder of the shares vest in equal daily installments over the three years thereafter. Options expire ten years from the date of grant.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

The following table sets forth the number of shares of common stock subject to exercisable and unexercisable stock options held as of December 31, 2003 by each of the named executive officers. The value of unexercised in-the-money options at December 31, 2003 is calculated based on an assumed initial public offering price of $13.00 per share of our common stock, which is the midpoint of the range listed on the cover of this prospectus, less the per share exercise price, multiplied by the number of shares issued upon exercise of the options, without taking into account any taxes that may be payable in connection with the option exercise. Options shown as exercisable in the table below are immediately exercisable, but we

have the right to purchase the shares of unvested common stock underlying some of these options upon termination of the holder's employment with us.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2003		Value of Unexercised In-the-Money Options at December 31, 2003	
			Exercisable	Unexercisable	Exercisable	Unexercisable
David M. Sheehan	—	—	416,190	—	$ 5,199,569	$ —
Todd M. Clyde	—	—	92,857	—	1,161,641	—
Diana M. Bowden	—	—	20,727	—	258,932	—
Martin B. Shirley	—	—	34,691	—	432,796	—
Stephen L. Bollinger	—	—	23,698	—	295,924	—

Benefit Plans

1991 Stock Option Program

Beginning in 1991, we began issuing stock options to directors, officers, employees and consultants. Our board of directors created a pool of reserved shares of common stock for issuance to these individuals and granted options using individual stock option agreements that followed a general form. We refer to this process as our 1991 Stock Option Program, or 1991 Program. As of March 31, 2004, there were a total of 2,721 shares of common stock reserved for issuance under our 1991 Program, subject to adjustment for any future stock split, or any future stock dividend or other similar change in our common stock or our capital structure. Under our 1991 Program, as of March 31, 2004, options to purchase 560 shares of our common stock had been exercised, options to purchase 653 shares of our common stock were outstanding and 1,509 shares of our common stock remained available for grant. As of March 31, 2004, the outstanding options were exercisable at a weighted average exercise price of approximately $394.18 per share. The foregoing share numbers reflect a 1-for-200 reverse split of our capital stock effected in October 2002 and a 1-for-3.5 reverse split of our common stock which was approved by our stockholders on April 30, 2004. We have not granted any options under our 1991 Program since August 1997, and following the consummation of this offering, no additional options will be granted under our 1991 Program.

Under our 1991 Program, only nonstatutory stock options may be granted and such options may only be granted to directors, officers, employees and consultants. Our board of directors administers our 1991 Program, including selecting the award recipients and determining the number of shares to be subject to each option, the exercise price of each option, the term of each option and the vesting and exercise periods of each option. Under our 1991 Program, options may not be assigned or transferred in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the participant only by the participant. Upon exercise of options issued under the 1991 Program, optionees enter into a stock purchase agreement with us that, among other things, provides us (i) a repurchase right with respect to a portion of the purchased shares, exercisable within 60 days of the termination of the services provided by the optionee and (ii) a right of first refusal, exercisable in connection with any proposed transfer of the purchased shares by the optionee.

If an optionee's status as an employee, director or consultant terminates for any reason other than death or disability, the optionee may exercise their vested options within the 60 day period following the termination. In the event the optionee dies while the optionee is an employee, director or consultant of our company, the options vested as of the date of death may be exercised prior to the earlier of their expiration date or 12 months from the date of the optionee's death. In the event the optionee becomes disabled while the optionee is an employee, director or consultant of our company, the options vested as of the date of disability may be exercised prior to the earlier of their expiration date or 12 months from the date of the optionee's disability.

Our board of directors has discretion to provide for acceleration of vesting in connection with a corporate transaction.

1997 Stock Option/Stock Issuance Plan

Our 1997 Stock Option/Stock Issuance Plan, or the 1997 Plan, was approved by our board of directors in September 1997 and by our stockholders in October 1997. As of March 31, 2004, there were a total of 1,185 shares of common stock reserved for issuance under our 1997 Plan, subject to adjustment for a stock split, or any future stock dividend or other similar change in our common stock or our capital structure. As of March 31, 2004, options to purchase 191 shares of common stock had been exercised, options to purchase 118 shares of common stock were outstanding and 876 shares of common stock remained available for grant. As of March 31, 2004, the outstanding options were exercisable at a weighted average exercise price of approximately $175.83 per share. All capital stock and option share numbers reflect a 1-for-200 reverse split of our capital stock effected in October 2002 and a 1-for-3.5 reverse split of our common stock to be effected prior to completion of the offering. After the consummation of this offering, no additional options will be granted under our 1997 Plan.

Awards under our 1997 Plan may consist of incentive stock options, which are stock options that qualify under Section 422 of the Internal Revenue Code, nonstatutory stock options and direct issuances of common stock.

Under our 1997 Plan, our board may grant incentive stock options to employees, including officers and employee directors. Nonstatutory stock options and stock issuances may be granted to employees, directors, and consultants. The board of directors or a committee designated by the board, referred to as the plan administrator, administers our 1997 Plan, including selecting the award recipients, determining the number of shares to be subject to each award, determining the exercise or purchase price of each award and determining the vesting and exercise periods of each award. The exercise price of all incentive stock options granted under our 1997 Plan must be at least equal to the fair market value of the common stock on the date of grant. The exercise price of all nonstatutory stock options granted under our 1997 Plan must be determined by the plan administrator, but in no event may be less than 85% of the fair market value on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all our classes of stock or the stock of any parent or subsidiary of us, the exercise price of any incentive stock option must equal at least 110% of the fair market value on the grant date. The maximum term of an incentive stock option or nonstatutory stock option must not exceed ten years, provided, however, that the maximum term of any incentive stock option granted to participant who owns stock possessing more than 10% of the voting power of all our classes of stock or the stock of any parent or subsidiary of us must not exceed five years. The purchase price per share for direct stock issuances must be not less than 85% of the fair market value on the date of issuance.

Under our 1997 Plan, options may not be assigned or transferred in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the participant only by the participant.

If an optionee's status as an employee, director or consultant terminates for any reason other than death or disability, the optionee may exercise their vested options within the three-month period following

the termination. In the event the optionee dies while the optionee is an employee, director or consultant of our company, the options vested as of the date of death may be exercised prior to the earlier of their expiration date or 12 months from the date of the optionee's death. In the event the optionee becomes disabled while the optionee is an employee, director or consultant of our company, the options vested as of the date of disability may be exercised prior to the earlier of their expiration date or 12 months from the date of the optionee's disability.

In the event of a corporate transaction where the acquiror does not assume or replace options granted under our 1997 Plan, such outstanding options will become fully vested and exercisable immediately prior to the consummation of the corporate transaction. In the event of a corporate transaction in which the acquiror assumes or replaces options granted under our 1997 Plan, options issued under our 1997 Plan will not be subject to accelerated vesting. However, assumed or replaced options will automatically become fully vested and exercisable if the optionee's service is terminated by reason of an involuntary termination within 24 months of the occurrence of a corporate transaction.

Under our 1997 Plan, a corporate transaction is generally defined as:

- a merger or consolidation in which securities possessing more than 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

- the sale, transfer or other disposition of all or substantially all of the assets of the company.

Our 1997 Plan will terminate automatically in 2007 unless terminated earlier by our board of directors. The board of directors also has the authority to amend our 1997 Plan. However, no action may be taken which will adversely affect any option previously granted under our 1997 Plan, without the optionee's consent. To the extent necessary to comply with applicable provisions of federal securities laws, state corporate and securities laws, the Internal Revenue Code, the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to awards granted to residents therein, we shall obtain stockholder approval of any such amendment to our 1997 Plan in such a manner and to such a degree as required.

1998 Stock Option/Stock Issuance Plan

Our 1998 Stock Option/Stock Issuance Plan, or the 1998 Plan, was approved by our board of directors in December 1998 and by our stockholders in November 1999. As of March 31, 2004, there were a total of 1,678,901 shares of common stock reserved for issuance under the 1998 Plan, subject to adjustment for any future stock split, or any future stock dividend or other similar change in our common stock or our capital structure. As of March 31, 2004, options to purchase 41,756 shares of common stock had been exercised, options to purchase 1,580,748 shares of common stock were outstanding and 56,519 shares of common stock remained available for grant. As of March 31, 2004, the outstanding options were exercisable at a weighted average exercise price of approximately $2.23 per share. All capital stock and option share numbers reflect a 1-for-200 reverse split of our capital stock effected in October 2002 and a 1-for-3.5 reverse split of our common stock to be effected prior to completion of the offering.

After the completion of this offering, no additional options will be granted under our 1998 Plan and all options granted under our 1998 Plan that expire without having been exercised or are cancelled will become available for grant under our 2004 Stock Incentive Plan.

Awards under our 1998 Plan may consist of incentive stock options, which are stock options that qualify under Section 422 of the Internal Revenue Code, nonstatutory stock options and direct issuances of common stock.

Under the 1998 Plan, our board may grant incentive stock options to employees, including officers and employee directors. Nonstatutory stock options and stock issuances may be granted to employees,

directors, and consultants. Our board of directors or a committee designated by the board, referred to as the plan administrator, administers our 1998 Plan, including selecting the award recipients, determining the number of shares to be subject to each award, determining the exercise or purchase price of each award and determining the vesting and exercise periods of each award. The exercise price of all incentive stock options granted under our 1998 Plan must be at least equal to the fair market value of the common stock on the date of grant. The exercise price of all nonstatutory stock options granted under our 1998 Plan must be determined by the plan administrator, but in no event may be less than 85% of the fair market value on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all our classes of stock or the stock of any parent or subsidiary of us, the exercise price of any incentive stock option must equal at least 110% of the fair market value on the grant date. The maximum term of an incentive stock option or nonstatutory stock option must not exceed ten years, provided, however, that the maximum term of any incentive stock option granted to participant who owns stock possessing more than 10% of the voting power of all our classes of stock or the stock of any parent or subsidiary of us must not exceed five years. The purchase price per share for direct stock issuances must be not less than 85% of the fair market value on the date of issuance.

Under our 1998 Plan, options may not be assigned or transferred in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the participant only by the participant.

If an optionee's status as an employee, director or consultant terminates for any reason other than death or disability, the optionee may exercise their vested options within the three-month period following the termination. In the event the optionee dies while the optionee is an employee, director or consultant of our company, the options vested as of the date of death may be exercised prior to the earlier of their expiration date or 12 months from the date of the optionee's death. In the event the optionee becomes disabled while the optionee is an employee, director or consultant of our company, the options vested as of the date of disability may be exercised prior to the earlier of their expiration date or 12 months from the date of the optionee's disability.

In the event of a corporate transaction where the acquiror does not assume or replace options granted under our 1998 Plan, such outstanding options will become fully vested and exercisable immediately prior to the consummation of the corporate transaction. In the event of a corporate transaction in which the acquiror assumes or replaces options granted under our 1998 Plan, options issued under our 1998 Plan will not be subject to accelerated vesting. However, assumed or replaced options will automatically become fully vested and exercisable if the optionee's service is terminated by reason of an involuntary termination within 24 months of the occurrence of a corporate transaction.

Under our 1998 Plan, a corporate transaction is generally defined as:

- a merger or consolidation in which securities possessing more than 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

- the sale, transfer or other disposition of all or substantially all of the assets of the company.

Our 1998 Plan will terminate automatically in 2008 unless terminated earlier by our board of directors. Our board of directors also has the authority to amend our 1998 Plan. However, no action may be taken which will adversely affect any option previously granted under our 1998 Plan, without the optionee's consent. To the extent necessary to comply with applicable provisions of federal securities laws, state corporate and securities laws, the Internal Revenue Code, the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to awards granted to residents therein, we will obtain stockholder approval of any such amendment to our 1998 Plan in such a manner and to such a degree as required.

2004 Stock Incentive Plan

Our board of directors and our stockholders approved our 2004 Stock Incentive Plan in April 2004. We have reserved 1,400,000 shares of our common stock for issuance under our 2004 Stock Incentive Plan, subject to adjustment for a stock split, or any future stock dividend or other similar change in our common stock or our capital structure. The number of shares initially reserved under the 2004 Stock Incentive Plan will be increased by any shares, up to a maximum of 1,500,000 shares, represented by awards under the 1998 Stock Option/Stock Issuance Plan that are forfeited, expire or are cancelled on or after the effective date of the registration statement relating to this offering. No awards have yet been granted under our 2004 Stock Incentive Plan and therefore 1,400,000 shares of common stock remain available for grant.

Our 2004 Stock Incentive Plan provides for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights and dividend equivalent rights, collectively referred to as "awards." Stock options granted under the 2004 Stock Incentive Plan may be either incentive stock options under the provisions of Section 422 of the Internal Revenue Code, or non-qualified stock options. Incentive stock options may be granted only to employees. Awards other than incentive stock options may be granted to employees, directors and consultants.

Our board of directors or a committee designated by our board of directors, referred to as the "plan administrator," will administer our 2004 Stock Incentive Plan, including selecting the optionees, determining the number of shares to be subject to each award, determining the exercise or purchase price of each award and determining the vesting and exercise periods of each award.

The exercise price of all incentive stock options granted under our 2004 Stock Incentive Plan must be at least equal to 100% of the fair market value of the common stock on the date of grant. If, however, incentive stock options are granted to an employee who owns stock possessing more than 10% of the voting power of all classes of our stock or the stock of any parent or subsidiary of us, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the maximum term of these incentive stock options must not exceed five years from the date of grant. The maximum term of an incentive stock option granted to any other participant must not exceed ten years from the date of grant. The plan administrator will determine the term and exercise or purchase price of all other awards granted under our 2004 Stock Incentive Plan.

Under our 2004 Stock Incentive Plan, incentive stock options may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the participant only by the participant. Other awards will be transferable by will or by the laws of descent or distribution and to the extent provided in the award agreement. Our 2004 Stock Incentive Plan permits the designation of beneficiaries by holders of awards, including incentive stock options.

In the event a participant in our 2004 Stock Incentive Plan terminates service or is terminated by us without cause, any options which have become exercisable prior to the time of termination will remain exercisable for three months from the date of termination, unless a shorter or longer period of time is determined by the plan administrator. In the event a participant in our 2004 Stock Incentive Plan is terminated by us for cause, the plan administrator has the discretion to determine whether any options which have become exercisable prior to the time of termination will immediately terminate. If termination was caused by death or disability, any options which have become exercisable prior to the time of termination will remain exercisable for 12 months from the date of termination, unless a shorter or longer period of time is determined by the plan administrator. In no event may a participant exercise the option after the expiration date of the option.

In the event of a corporate transaction where the acquiror assumes or replaces awards granted under our 2004 Stock Incentive Plan, none of these awards will be subject to accelerated vesting. However, assumed or replaced awards will automatically become fully vested if the grantee is terminated by the

acquiror without cause within 12 months after the occurrence of a corporate transaction. In the event of a corporate transaction where the acquiror does not assume or replace awards granted under our 2004 Stock Incentive Plan, all of these awards become fully vested immediately prior to the consummation of the corporate transaction. Under our 2004 Stock Incentive Plan, a corporate transaction is generally defined as:

- an acquisition of 40% or more of our stock by any individual or entity including by tender offer or a reverse merger;
- a sale, transfer or other disposition of all or substantially all of the assets of our company;
- a merger or consolidation in which our company is not the surviving entity; or
- a complete liquidation or dissolution.

Unless terminated sooner, our 2004 Stock Incentive Plan will automatically terminate in 2014. Our board of directors has the authority to amend or terminate our 2004 Stock Incentive Plan. No amendment or termination of our 2004 Stock Incentive Plan will adversely affect any rights under awards already granted to a participant unless agreed to by the affected participant. To the extent necessary to comply with applicable provisions of federal securities laws, state corporate and securities laws, the Internal Revenue Code, the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to awards granted to residents therein, we will obtain stockholder approval of any such amendment to our 2004 Stock Incentive Plan in such a manner and to such a degree as required.

2004 Non-Employee Director Stock Option Program

Our 2004 Non-Employee Director Stock Option Program will be adopted as part of our 2004 Stock Incentive Plan and will be subject to the terms and conditions of our 2004 Stock Incentive Plan. Our 2004 Non-Employee Director Stock Option Program was approved by our board of directors in April 2004. Our 2004 Non-Employee Director Stock Option Program will become effective as of the effective date of this prospectus, and no awards will be made under this program until that time.

The purpose of our 2004 Non-Employee Director Stock Option Program is to promote the success of our business by enhancing our ability to attract and retain the best available non-employee directors and to provide them additional incentives.

Our 2004 Non-Employee Director Stock Option Program will establish an automatic option grant program for the grant of awards to non-employee directors. Under this program, each non-employee director first elected to our board of directors following the closing of this offering will automatically be granted an option to acquire 10,000 shares of our common stock at an exercise price per share equal to the fair market value of our common stock at the date of grant. These options will be fully vested and exercisable on the grant date. Upon the date of each annual stockholders' meeting, each non-employee director who has been a member of our board of directors for at least six months prior to the date of the stockholders' meeting will receive an automatic grant of options to acquire 5,000 shares of our common stock at an exercise price equal to the fair market value of our common stock at the date of grant. These options will be fully vested and exercisable on the grant date. The term of each automatic option grant and the extent to which it will be transferable will be provided in the agreement evidencing the option.

Our 2004 Non-Employee Director Stock Option Program will be administered by the board or a committee designated by our board made up of two or more non-employee directors so that such awards would be exempt from Section 16(b) of the Exchange Act, referred to as the "program administrator." The program administrator will determine the terms and conditions of awards, and construe and interpret the terms of the program and awards granted under the program. Non-employee directors may also be granted additional awards under the 2004 Stock Incentive Plan, subject to the discretion of the board or the committee.

Unless terminated sooner, our 2004 Non-Employee Director Stock Option Program will terminate automatically in 2014 when our 2004 Stock Incentive Plan terminates. Our board of directors has the authority to amend, suspend or terminate our 2004 Non-Employee Director Stock Option Program. No amendment or termination of our 2004 Non-Employee Director Stock Option Program will adversely affect any rights under options already granted to a non-employee director unless agreed to by the affected non-employee director. Our 2004 Non-Employee Director Stock Option Program was adopted by the board pursuant to its discretionary authority under our 2004 Stock Incentive Plan to make option grants to non-employee directors. Accordingly, stockholder approval is not required for the adoption or any amendment of our 2004 Non-Employee Director Stock Option Program.

Employment Arrangements and Change of Control Arrangements

We have not entered into employment agreements with any of our executive officers.

In June 2002, we entered into a letter agreement with David M. Sheehan, our President, Chief Executive Officer and director, whereby we agreed to pay him cash bonuses in the amount of $25,000 on each of June 2002, October 2002 and January 2003 in connection with his service to us as an employee. We also agreed to pay Mr. Sheehan a further cash bonus dependent upon our receipt of certain revenues and cashflow for the fiscal year ending December 31, 2002. In addition, we agreed that in the event that at any time on or before June 2004 we were acquired or substantially all of our assets were sold, Mr. Sheehan and other members of senior management would be entitled to receive an aggregate bonus in an amount not less than $400,000 and not greater than 10% of any proceeds received by us in connection with such acquisition or sale in excess of $30,000,000. We also agreed to make a further grant of options to Mr. Sheehan to purchase shares of our common stock pursuant to our 1998 Plan.

We routinely grant our executive officers stock options under our stock incentive plans. For a description of the change of control provisions applicable to such stock options, see "Management—Benefit Plans."

Limitation of Liability and Indemnification of Officers and Directors

As permitted by Section 102 of the Delaware General Corporation Law, we have adopted provisions in our restated certificate of incorporation and restated bylaws that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any act related to unlawful stock repurchases, redemptions or other distributions or payment of dividends; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not affect the availability of equitable remedies such as injunctive relief or rescission. Our restated certificate of incorporation also authorizes us to indemnify our officers, directors and other agents to the fullest extent permitted under Delaware law.

As permitted by Section 145 of the Delaware General Corporation Law, our restated bylaws provide that:

- we may indemnify our directors, officers, and employees to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions;
- we may advance expenses to our directors, officers and employees in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and
- the rights provided in our restated bylaws are not exclusive.

We have entered, and intend to continue to enter, into separate indemnification agreements with each of our directors and officers which may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements require us, among other things, to indemnify our officers and directors against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct. These indemnification agreements also require us to advance any expenses incurred by the directors or officers as a result of any proceeding against them as to which they could be indemnified.

At present, we are not aware of any pending or threatened litigation or proceeding involving a director, officer, employee or agent in which indemnification would be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

We have purchased a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment in some circumstances.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

All share and per share amounts have been adjusted to give effect to a 1-for-200 reverse split of our capital stock effected in October 2002 and a 1-for-3.5 reverse split of our common stock which was approved by our stockholders on April 30, 2004.

Issuances of Options

From January 2001 to March 31, 2004, we granted options to purchase an aggregate of 1,008,495 shares of our common stock to our current directors and executive officers, including each of our executive officers named in the Summary Compensation Table, at an average weighted exercise price of $1.36.

Issuance of Common Stock

In January 2002, David M. Sheehan, our President, Chief Executive Officer and a director, exercised an option to purchase 29 shares at an aggregate exercise price of $10,000.

Issuances of Preferred Stock

As previously indicated, all of the share numbers in this prospectus, including those appearing in the following discussion, have been revised to reflect a 1-for-200 reverse split of our capital stock effected in October 2002 and a 1-for-3.5 reverse split of our common stock which was approved by our stockholders on April 30, 2004.

In January, March and April 2001, we issued and sold to investors 9,694 shares of our Series E preferred stock, at a purchase price of $607.20 per share, for an aggregate purchase price of approximately $5.9 million. In April, May and June 2002, we issued and sold shares of our Series H preferred stock. As part of that offering, we permitted any existing preferred stockholders that purchased their pro rata share of the Series H preferred stock to exchange their shares of Series A, Series B, Series C, Series D, Series E or Series F preferred stock for shares of our Series G preferred stock. The exchange ratio was equal to the liquidation value of such series divided by the Series G purchase price. In connection with the Series H offering, an aggregate of 9,611 shares of our Series E preferred stock with an aggregate liquidation value of approximately $5.8 million were exchanged for shares of our Series G preferred stock at a price of $2.00 per share. As a result, each share of Series E preferred stock was exchanged for approximately 304 shares of Series G preferred stock.

Upon completion of this offering, the 5,447 shares of our Series E preferred stock outstanding as of March 31, 2004, all of which are held by stockholders who did not exchange such shares for Series G preferred stock, will convert into 1,554 shares of our common stock.

In August 2001, we issued and sold 13,092 shares of our Series F preferred stock, at a purchase price of $650.00 per share, for an aggregate purchase price of approximately $8.5 million. In connection with the Series H offering, in April, May and June 2002, an aggregate of 12,322 of these shares of our Series F preferred stock with an aggregate liquidation value of approximately $8.0 million were exchanged for shares of our Series G preferred stock at a price of $2.00 per share. As a result each share of Series F preferred stock was exchanged for 325 shares of Series G preferred stock.

Upon completion of this offering, the 770 shares of our Series F preferred stock outstanding as of March 31, 2004, all of which are held by stockholders who did not exchange such shares for Series G preferred stock, will convert into 235 shares of our common stock.

In April, May and June 2002, we issued and sold 31,008,401 shares of our Series G preferred stock, at a purchase price of $2.00 per share, in exchange for the conversion of outstanding shares of our Series A, Series B, Series C, Series D, Series E and Series F preferred stock having an aggregate liquidation value of approximately $62.0 million. Concurrently with such exchange, we issued and sold 12,561,706 shares of our Series H preferred stock, at a purchase price of $1.39 per share, for an aggregate purchase price of

approximately $17.5 million. Following the issuance of our Series G preferred stock, holders of 24,191 shares of our Series G preferred stock elected to convert such shares into 6,905 shares of our common stock. Upon completion of this offering, the 30,984,210 shares of our Series G preferred stock outstanding as of March 31, 2004 will convert into 8,852,664 shares of our common stock, and the 12,561,706 shares of our Series H preferred stock outstanding as of March 31, 2004 will convert into 3,588,952 shares of our common stock.

The purchasers of our Series E preferred stock, Series F preferred stock, Series G preferred stock and Series H preferred stock include, among others, the following directors and holders of more than 5% of our outstanding stock:

	Shares of Preferred Stock			
Name	**Series E(1)**	**Series F(2)**	**Series G(3)**	**Series H(4)**
Entities affiliated with Kingsbury Associates(5)	625	923	4,788,417	980,348
Entities affiliated with Sorrento Associates(6)	—	385	3,870,246	1,220,217
Entities affiliated with Vector Fund Management(7)	—	769	6,117,483	1,284,533
Palivacinni Partners, LLC(8)	124	100	70,000	35,221
Entities affiliated with Merrill Lynch Ventures(9)	4,044	538	3,398,635	2,443,201
Kenneth E. Olson Trust dated March 16, 1989(10)	—	154	65,127	84,268
Linda K. Olson (11)	—	—	30,001	4,498
GE Capital Equity Investments, Inc.(12)	—	4,615	1,498,159	1,435,545
Health Care Indemnity, Inc.	1,647	—	2,000,000	299,791
Entities affiliated with Sanderling Ventures(13)	—	—	—	2,158,702

(1) Each share of Series E preferred stock was exchanged into approximately 304 shares of our Series G preferred stock.

(2) Each share of Series F preferred stock was exchanged into approximately 325 shares of our Series G preferred stock.

(3) Each share of Series G preferred stock is convertible into approximately 0.29 shares of our common stock.

(4) Each share of Series H preferred stock is convertible into approximately 0.29 shares of our common stock.

(5) Includes (a) 320 shares of Series E preferred stock, 1,749,552 shares of Series G preferred stock (2,151 shares of which have been converted to 614 shares of common stock) and 18,628 shares of Series H preferred stock held by Kingsbury Capital Partners, L.P.; (b) 305 shares of Series E preferred stock and 1,740,460 shares of Series G preferred stock (2,140 shares of which have been converted to 611 shares of common stock) held by Kingsbury Capital Partners, L.P., II; (c) 277 shares of Series F preferred stock, 739,092 shares of Series G preferred stock (909 shares of which have been converted to 259 shares of common stock) and 332,533 shares of Series H preferred stock held by Kingsbury Capital Partners, L.P., III; and (d) 646 shares of Series F preferred stock, 559,313 shares of Series G preferred stock (688 shares of which have been converted to 196 shares of common stock) and 629,187 shares of Series H preferred stock held by Kingsbury Capital Partners, L.P., IV. Timothy J. Wollaeger, a member of our board of directors, is the general partner of Kingsbury Associates, L.P., which is the general partner of each of Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV. Mr. Wollaeger disclaims beneficial ownership of the shares held by Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV, except to the extent of his pecuniary interests in the named fund. As general partner, Mr. Wollaeger has voting and investment power with respect to the shares held by Kingsbury Capital Partners, L.P.,

Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV.

(6) Includes (a) 1,298,864 shares of Series G preferred stock (1,597 shares of which have been converted to 456 shares of common stock) held by Sorrento Growth Partners I, L.P.; (b) 533,416 shares of Series G preferred stock (656 shares of which have been converted to 187 shares of common stock) and 162,581 shares of Series H preferred stock held by Sorrento Ventures II, L.P.; (c) 320 shares of Series F preferred stock, 1,692,933 shares of Series G preferred stock (2,082 shares of which have been converted to 594 shares of common stock) and 862,067 shares of Series H preferred stock held by Sorrento Ventures III, L.P.; and (d) 65 shares of Series F preferred stock, 345,033 shares of Series G preferred stock (425 shares of which have been converted to 121 shares of common stock) and 195,569 shares of Series H preferred stock held by Sorrento Ventures CE, L.P. Robert M. Jaffe, a member of our board of directors, is president of (a) Sorrento Growth, Inc., which is the general partner of Sorrento Equity Growth Partners I, L.P., which is the general partner of Sorrento Growth Partners I, L.P.; and (b) Sorrento Associates, Inc., which is the general partner of (i) Sorrento Equity Partners, L.P., the general partner of Sorrento Ventures II, L.P., and (ii) Sorrento Equity Partners III, L.P., the general partner of Sorrento Ventures III, L.P. and Sorrento Ventures CE, L.P. Mr. Jaffe disclaims beneficial ownership of the shares held by Sorrento Growth Partners I, L.P., Sorrento Ventures II, L.P., Sorrento Ventures III, L.P. and Sorrento Ventures CE, L.P., except to the extent of his pecuniary interests in the named fund. As president of Sorrento Growth, Inc. and Sorrento Associates, Inc., Mr. Jaffe may be deemed to have voting and investment power with respect to the shares held by Sorrento Growth Partners I, L.P., Sorrento Ventures II, L.P., Sorrento Ventures III, L.P. and Sorrento Growth Partners CE, L.P. Mr. Jaffe has submitted his resignation from our board of directors which will become effective immediately prior to the effectiveness of this offering.

(7) Includes (a) 2,740,530 shares of Series G preferred stock (3,370 shares of which have been converted to 962 shares of common stock) and 508,697 shares of Series H preferred stock held by Vector Later-Stage Equity Fund, L.P.; (b) 192 shares of Series F preferred stock, 844,239 shares of Series G preferred stock (1,038 shares of which have been converted to 296 shares of common stock) and 193,960 shares of Series H preferred stock held by Vector Later-Stage Equity Fund II, L.P.; and (c) 577 shares of Series F preferred stock, 2,532,714 shares of Series G preferred stock (3,114 shares of which have been converted to 889 shares of common stock) and 581,876 shares of Series H preferred stock held by Vector Later-Stage Equity Fund II (Q.P.), L.P. Douglas Reed, a member of our board of directors, is a managing director of Vector Fund Management, L.P., which is the general partner of Vector Later-Stage Equity Fund, L.P., and Vector Fund Management II, LLC, which is the general partner of each of Vector Later-Stage Equity Fund II, L.P. and Vector Later-Stage Equity Fund II (Q.P.), L.P. Dr. Reed disclaims beneficial ownership of the shares held by 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., except to the extent of his pecuniary interests in the named fund. Dr. Reed may be deemed to share voting and investment power with respect to the shares held by 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. with the other managing director and members of the investment committee of Vector Fund Management, L.P. and Vector Fund Management II, LLC.

(8) Douglas Reed, a member of our board of directors, is a managing member of Palivacinni Partners, LLC. Dr. Reed disclaims beneficial ownership of the shares held by Palivacinni Partners, LLC, except to the extent of his pecuniary interest and may be deemed to share investment and voting power over the shares with the other managing members.

(9) Includes (a) 4,044 shares of Series F preferred stock held by Merrill Lynch Ventures, LLC (and subsequently transferred to Merrill Lynch Ventures L.P., 2001) and (b) 538 shares of Series F preferred stock, 3,398,635 shares of Series G preferred stock and 2,443,201 shares of Series H preferred stock held by Merrill Lynch Ventures, L.P. 2001.

(10) Kenneth E. Olson, a member of our board of directors, is the trustee of the Kenneth E. Olson Trust dated March 16, 1989.

(11) Linda K. Olson is the spouse of Kenneth E. Olson, a member of our board of directors.

(12) 1,842 shares of Series G preferred stock held by GE Capital Equity Investments, Inc. have been converted into 526 shares of common stock.

(13) Includes (a) 1,492,158 shares of Series H preferred stock held by Sanderling Venture Partners V, L.P.; (b) 365,501 shares of Series H preferred stock held by Sanderling V Biomedical, L.P.; (c) 147,876 shares of Series H preferred stock held by Sanderling V Limited Partnership; (d) 131,580 shares of Series H preferred stock held by Sanderling V Beteiligungs GMBH & Co. KG; and (e) 21,587 shares of Series H preferred stock held by Sanderling V Ventures Management. Timothy J. Wollaeger, a member of our board of directors, is a managing director of Middleton, McNeil & Mills Associates V, LLC, the general partner of Sanderling Venture Partners V, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership and Sanderling V Beteiligungs GMBH & Co. KG. Mr. Wollaeger is an owner of Sanderling V Ventures Management. Mr. Wollaeger disclaims beneficial ownership of the shares held by Sanderling Venture Partners V, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership, Sanderling V Beteiligungs GMBH & Co. KG and Sanderling V Ventures Management, except to the extent of his pecuniary interests in the named fund. Mr. Wollaeger may be deemed to share voting and investment power with respect to the shares held by Sanderling Venture Partners V, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership and Sanderling V Beteiligungs GMBH & Co. KG with the other managing directors of Middleton, McNeil & Mills Associates V, LLC. Mr. Wollaeger may be deemed to share voting and investment power with respect to the shares held by Sanderling V Ventures Management with the other owners.

Sales of Promissory Notes and Warrants

In January 2002, we borrowed an aggregate of approximately $1.9 million from existing stockholders and a new investor. We issued each lending party a convertible promissory note in January 2002 bearing interest at 12% per annum. In addition, we issued and sold to these parties warrants to purchase 227 shares of our common stock at an initial purchase price of $0.70 per underlying share of common stock, which amount was paid to us through a retention of the interest that accrued on each investor's note. Aside and apart from this $0.70 per share purchase price, each warrant has an exercise price of $1,050.00 per share.

In April 2002, each of the convertible promissory notes issued in January 2002 was satisfied in full by converting each note into shares of our Series H preferred stock at a purchase price of $1.39.

The purchasers of our convertible promissory notes and warrants to purchase our common stock include, among others, the following directors and holders of more than 5% of our outstanding stock:

Name	Principal Amount of Promissory Note	Shares of Series H Preferred Stock Issued Upon Conversion of Notes(1)	Shares of Common Stock Underlying Warrants
Entities affiliated with Kingsbury Associates(2)	$ 1,025,000	737,410	120
Entities affiliated with Vector Fund Management(3)	$ 200,000	143,884	24
Merrill Lynch Ventures L.P., 2001	$ 100,000	71,942	12
Kenneth E. Olson Trust dated March 16, 1989(4)	$ 100,000	71,942	12

(1) Each share of Series H preferred stock is convertible into 0.29 shares of our common stock.

(2) Includes (a) $25,000 in principal amount of loan and 13 shares of common stock underlying warrants issued to Kingsbury Capital Partners, L.P.; (b) $300,000 in principal amount of loan and 35 shares of common stock underlying warrants issued to Kingsbury Capital Partners, L.P., III; and (c) $700,000 in

principal amount of loan and 82 shares of common stock underlying warrants issued to Kingsbury Capital Partners, L.P., IV. Timothy J. Wollaeger, a member of our board of directors, is the general partner of Kingsbury Associates, L.P., which is a general partner of each of Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV. Mr. Wollaeger disclaims beneficial ownership of the shares held by Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV, except to the extent of his pecuniary interests in the named fund. Mr. Wollaeger has voting and investment power with respect to the shares held by Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV.

(3) Includes (a) $50,000 in principal amount of loan and 6 shares of common stock underlying warrants issued to Vector Later-Stage Equity Fund II, L.P.; and (b) $150,000 in principal amount of loan and 18 shares of common stock underlying warrants issued to Vector Later-Stage Equity Fund II (Q.P.), L.P. Douglas Reed, a member of our board of directors, is managing director of Vector Fund Management II, LLC, 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. Dr. Reed disclaims beneficial ownership of the shares held by Vector Later-Stage Equity Fund II, L.P. and Vector Later-Stage Equity Fund II (Q.P.), L.P., except to the extent of his pecuniary interests in the named fund. Dr. Reed may be deemed to share voting and investment power with respect to the shares held by Vector Later-Stage Equity Fund II, L.P. and Vector Later-Stage Equity Fund II (Q.P.), L.P. with the other managing director and members of the investment committee of Vector Fund Management II, LLC.

(4) Kenneth E. Olson, a member of our board of directors, is the trustee of the Kenneth E. Olson Trust dated March 16, 1989.

Bonus Arrangements

In June 2002, we entered into a letter agreement with David M. Sheehan, our President, Chief Executive Officer and a director, whereby we agreed to pay him cash bonuses in connection with his service to us as an employee and in the event that our business was acquired or our assets sold. For a description of this letter agreement, see "Management—Employment Arrangements and Change of Control Arrangements."

Other Transactions

We have entered into agreements with all holders of our preferred stock, including entities affiliated with some of our directors and holders of 5% or more of our common stock, whereby we granted them registration rights with respect to their shares of common stock issuable upon conversion of their preferred stock. For more information regarding registration rights, please see "Description of Capital Stock."

We have entered into indemnification agreements with each of our executive officers and directors. The indemnification agreements require us to indemnify these individuals to the fullest extent permitted by Delaware law and may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. In addition, we have purchased a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment in some circumstances.

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of April 28, 2004, for:

- each executive officer named in the Summary Compensation Table;
- each of our directors;
- each person known by us to beneficially own more than 5% of our common stock; and
- all of our executive officers and directors as a group.

Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of more than 5% of our common stock. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to the securities. Except as indicated by footnote, and subject to applicable community property laws, 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. The number of shares of common stock used to calculate the percentage ownership of each listed person includes the shares of common stock underlying options or warrants held by such persons that are exercisable within 60 days of April 28, 2004, if any.

Percentage of beneficial ownership before the offering is based on 12,502,409 shares, consisting of 58,115 shares of common stock outstanding as of April 28, 2004, and 12,444,294 shares issuable upon the conversion of the preferred stock. Percentage of beneficial ownership after the offering is based on 18,002,409 shares, including 5,500,000 shares offered by this prospectus. Unless otherwise indicated, the address for the following stockholders is c/o Digirad Corporation, 13950 Stowe Drive, Poway, California 92064.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned	
		Before Offering	After Offering
Executive Officers and Directors:			
David M. Sheehan(1)	416,219	3.2%	2.3%
Todd P. Clyde(2)	112,857	*	*
Diana M. Bowden(3)	35,013	*	*
Martin B. Shirley(4)	40,405	*	*
Stephen L. Bollinger(5)	29,412	*	*
Timothy J. Wollaeger(6)	2,268,553	18.1	12.6
Raymond V. Dittamore(7)	11,429	*	*
Robert M. Jaffe(8)	1,455,772	11.6	8.1
R. King Nelson(9)	11,507	*	*
Kenneth E. Olson(10)	103,445	*	*
Douglas Reed, M.D.(11)	2,147,116	17.2	11.9
5% Stockholders:			
Entities affiliated with Vector Fund Management(12) 1751 Lake Cook Road, Suite 350 Deerfield, IL 60015	2,117,054	16.9	11.8
Merrill Lynch Ventures, LLC(13) 4 World Financial Center, 23rd Floor New York, NY 10080	1,670,301	13.4	9.3
Entities affiliated with Kingsbury Associates(14) 3655 Nobel Drive, Suite 490 San Diego, CA 92122	1,650,203	13.2	9.2

Entities affiliated with Sorrento Associates(8) 4370 La Jolla Village Drive, Suite 1040 San Diego, CA 92122	1,455,772	11.6	8.1
GE Capital Equity Investments, Inc. 120 Long Ridge Road Stamford, CT 06927	838,727	6.7	4.7
Health Care Indemnity, Inc. One Park Plaza Nashville, TN 37069	657,082	5.3	3.6
All directors and executive officers as a group (15 persons)	6,923,766	51.3	36.4

* Indicates beneficial ownership of less than 1% of the total outstanding common stock.

(1) Includes 416,190 shares subject to options exercisable within 60 days of April 28, 2004.

(2) Includes 112,857 shares subject to options exercisable within 60 days of April 28, 2004.

(3) Includes 35,013 shares subject to options exercisable within 60 days of April 28, 2004.

(4) Includes 40,405 shares subject to options exercisable within 60 days of April 28, 2004.

(5) Includes 29,412 shares subject to options exercisable within 60 days of April 28, 2004.

(6) Includes (a) 74 shares subject to options and warrants exercisable within 60 days of April 28, 2004 and 505,807 shares held by Kingsbury Capital Partners, L.P.; (b) 71 shares subject to options exercisable within 60 days of April 28, 2004 and 497,885 shares held by Kingsbury Capital Partners, L.P., II; (c) 49 shares subject to warrants exercisable within 60 days of April 28, 2004 and 306,436 shares held by Kingsbury Capital Partners, L.P., III; (d) 115 shares subject to warrants exercisable within 60 days of April 28, 2004 and 339,766 shares held by Kingsbury Capital Partners, L.P., IV; (e) 426,330 shares held by Sanderling Venture Partners V, L.P.; (f) 104,428 shares held by Sanderling V Biomedical, L.P.; (g) 42,250 shares held by Sanderling V Limited Partnership; (h) 37,594 shares held by Sanderling V Beteiligungs GMBH & Co. KG; and (i) 6,167 shares held by Sanderling V Ventures Management. Timothy J. Wollaeger, a member of our board of directors, is the general partner of Kingsbury Associates, L.P., which is a general partner of each of Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV. Mr. Wollaeger is also a managing director of Middleton, McNeil & Mills Associates V, LLC, the general partner of Sanderling Venture Partners V, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership and Sanderling V Beteiligungs GMBH & Co. KG, and is an owner of Sanderling V Ventures Management. Mr. Wollaeger disclaims beneficial ownership of the shares held by Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III, Kingsbury Capital Partners, L.P., IV, Sanderling Venture Partners V, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership, Sanderling V Beteiligungs GMBH & Co. KG and Sanderling V Ventures Management, except to the extent of his pecuniary interests in the named fund. As general partner, Mr. Wollaeger has voting and investment power with respect to the shares held by Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV. Mr. Wollaeger shares voting and investment power with respect to the shares held by Sanderling Venture Partners V, L.P., Sanderling V Biomedical, L.P., Sanderling V Limited Partnership and Sanderling V Beteiligungs GMBH & Co. KG with the other managing directors of Middleton, McNeil & Mills Associates V, LLC. Mr. Wollaeger may be deemed to share voting and investment power with respect to the shares held by Sanderling V Ventures Management with the other owners.

(7) Includes 11,429 shares subject to options exercisable within 60 days of April 28, 2004.

(8) Includes (a) 371,559 shares held by Sorrento Growth Partners I, L.P.; (b) 199,042 shares held by Sorrento Ventures II, L.P.; (c) 730,593 shares held by Sorrento Ventures III, L.P.; and (d) 154,578 shares held by Sorrento Ventures CE, L.P. Robert M. Jaffe, a member of our board of directors, is president of (a) Sorrento Growth, Inc., which is the general partner of Sorrento Equity Growth Partners I, L.P., which is the general partner of Sorrento Growth Partners I, L.P.; and (b) Sorrento Associates, Inc., which is the general partner of (i) Sorrento Equity Partners, L.P., the general partner of Sorrento Ventures II, L.P., and (ii) Sorrento Equity Partners III, L.P., the general partner of Sorrento Ventures III, L.P. and Sorrento Ventures CE, L.P. Mr. Jaffe disclaims beneficial ownership of the shares held by Sorrento Growth Partners I, L.P., Sorrento Ventures II, L.P., Sorrento Ventures III, L.P. and Sorrento Ventures CE, L.P., except to the extent of his pecuniary interests in the named fund. As president of Sorrento Growth, Inc. and Sorrento Associates, Inc., Mr. Jaffe may be deemed to have voting and investment power with respect to the shares held by Sorrento Growth Partners I, L.P., Sorrento Ventures II, L.P., Sorrento Ventures III, L.P. and Sorrento Growth Partners CE, L.P. Mr. Jaffe, who currently serves as a member of our board of directors, has submitted his resignation which will become effective immediately prior to the effectiveness of this offering.

(9) Includes 11,507 shares subject to options exercisable within 60 days of April 28, 2004.

(10) Includes (a) 60,750 shares subject to options exercisable within 60 days of April 28, 2004; (b) 12 shares subject to warrants exercisable within 60 days of April 28, 2004 held by the Kenneth E. Olson Trust dated March 16, 1989; and (c) 42,683 shares held by the Kenneth E. Olson Trust dated March 16, 1989. Kenneth E. Olson, a member of our board of directors, is the trustee of the Kenneth E. Olson Trust dated March 16, 1989.

(11) Includes (a) 929,312 shares held by Vector Later-Stage Equity Fund, L.P.; (b) 12 shares subject to warrants exercisable within 60 days of April 28, 2004 and 296,923 shares held by Vector Later-Stage Equity Fund II, L.P.; (c) 36 shares subject to warrants exercisable within 60 days of April 28, 2004 and 890,771 shares held by Vector Later-Stage Equity Fund II (Q.P.), L.P.; and (d) 30,062 shares held by Palivacinni Partners, LLC. Douglas Reed, a member of our board of directors, is a managing director of Vector Fund Management, L.P., which is the general partner of Vector Later-Stage Equity Fund, L.P., and Vector Fund Management II, LLC, which is the general partner of each of Vector Later-Stage Equity Fund II, L.P. and Vector Later-Stage Equity Fund II (Q.P.), L.P. and is a managing member of Palivacinni Partners, LLC. Dr. Reed disclaims beneficial ownership of the shares held by 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., except to the extent of his pecuniary interests in the named fund. Dr. Reed may be deemed to share voting and investment power with respect to the shares held by 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. with the other managing director and members of the investment committee of Vector Fund Management, L.P. and Vector Fund Management II, LLC. Dr. Reed disclaims beneficial ownership of the shares held by Palivacinni Partners, LLC, except to the extent of his pecuniary interests in the entity. Dr. Reed may be deemed to have voting and investment power with respect to the shares held by Palivacinni Partners, LLC with the other managing members.

(12) Includes (a) 929,312 shares held by Vector Later-Stage Equity Fund, L.P.; (b) 12 shares subject to warrants exercisable within 60 days of April 28, 2004 and 296,923 shares held by Vector Later-Stage Equity Fund II, L.P.; and (c) 36 shares subject to warrants exercisable within 60 days of April 28, 2004 and 890,771 shares held by Vector Later-Stage Equity Fund II (Q.P.), L.P. Douglas Reed, a member of our board of directors, and Barclay A Phillips are the managing directors of each of Vector Fund Management, L.P., which is the general partner of Vector Later-Stage Equity Fund, L.P., and Vector Fund Management II, LLC, which is the general partner of each of Vector Later-Stage Equity Fund II, L.P. and Vector Later-Stage Equity Fund II (Q.P.), L.P. Dr. Reed and Mr. Phillips, together with

D. Theodore Berghorst, Peter Drake and James Foght who are also members of the investment committee of Vector Fund Management, L.P. and Vector Fund Management II, LLC, may be deemed to have voting and investment power with respect to the shares held by 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. Dr. Reed, Mr. Phillips, Mr. Berghorst, Dr. Drake and Dr. Foght each disclaim beneficial ownership of the shares held by 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., except to the extent of his pecuniary interests in the named fund.

(13) Includes 12 shares subject to warrants exercisable within 60 days of April 28, 2004 held by Merrill Lynch Ventures, L.P. 2001. Merrill Lynch Ventures, LLC is the general partner of Merrill Lynch Ventures, L.P. 2001 and is managed by a board of directors which may be deemed to exercise voting and investment power with respect to such shares. The members of the board of directors are Nathan Thorne, Mandy Puri, George Bitar, Mac Gardner and Jerry Kennedy, each of whom disclaims beneficial ownership of the shares held by Merrill Lynch Ventures, L.P. 2001 except to the extent of his or her pecuniary interest therein.

(14) Includes (a) 74 shares subject to options and warrants exercisable within 60 days of April 28, 2004 and 505,807 shares held by Kingsbury Capital Partners, L.P.; (b) 71 shares subject to options exercisable within 60 days of April 28, 2004 and 497,885 shares held by Kingsbury Capital Partners, L.P., II; (c) 49 shares subject to warrants exercisable within 60 days of April 28, 2004 and 306,436 shares held by Kingsbury Capital Partners, L.P., III; and (d) 115 shares subject to warrants exercisable within 60 days of April 28, 2004 and 339,766 shares held by Kingsbury Capital Partners, L.P., IV. Timothy J. Wollaeger, a member of our board of directors, is the general partner of Kingsbury Associates, L.P., which is a general partner of each of Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV. Mr. Wollaeger disclaims beneficial ownership of the shares held by Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV, except to the extent of his pecuniary interests in the named fund. Mr. Wollaeger has voting and investment power with respect to the shares held by Kingsbury Capital Partners, L.P., Kingsbury Capital Partners, L.P., II, Kingsbury Capital Partners, L.P., III and Kingsbury Capital Partners, L.P., IV.

DESCRIPTION OF CAPITAL STOCK

The following descriptions of our capital stock give effect to the following events:

- a 1-for-200 reverse split of our capital stock effected in October 2002;
- a 1-for-3.5 reverse split of our common stock to be effected prior to completion of this offering;
- the restatement of our certificate of incorporation and bylaws upon completion of this offering; and
- the conversion of our preferred stock into 12,444,294 shares of common stock, which will occur upon the completion of this offering.

Upon completion of this offering, our authorized capital stock will consist of 150,000,000 shares of common stock, $0.0001 par value per share, and 10,000,000 shares of undesignated preferred stock, $0.0001 par value per share.

The following summary of the rights of our capital stock is not complete and is qualified in its entirety by reference to our restated certificate of incorporation and restated bylaws to be in effect upon the completion of this offering, copies of which are filed as exhibits to the registration statement of which this prospectus is a part, and by the provisions of applicable Delaware law.

Common Stock

Outstanding Shares

Based on 58,115 shares of common stock outstanding as of April 28, 2004, the issuance of 5,500,000 shares of common stock in this offering, the issuance of 12,444,294 shares of common stock upon conversion of all outstanding shares of our preferred stock, and no exercise of outstanding options or warrants, there will be 18,002,409 shares of common stock outstanding upon the closing of this offering. As of the same date, there were 1,636,385 shares subject to outstanding options under our 1991 Stock Option Program, our 1997 Stock Option/Stock Issuance Plan and our 1998 Stock Option/Stock Issuance Plan. In addition, as of the same date, there were warrants outstanding to purchase 45,550 shares of our common stock. As of April 28, 2004, we had approximately 310 holders of our common stock.

Voting Rights

Holders of our common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. The holders of common stock are not entitled to cumulate voting rights with respect to the election of directors, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election.

Dividends

Subject to limitations under Delaware law and preferences that may apply to any outstanding shares of preferred stock, holders of our common stock are entitled to receive ratably such dividends or other distribution, if any, as may be declared by our board of directors out of funds legally available therefor.

Liquidation

In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to the liquidation preference of any of our outstanding preferred stock.

Rights and Preferences

Our common stock has no preemptive, conversion or other rights to subscribe for additional securities. There are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that we may designate and issue in the future.

Fully Paid and Nonassessable

All outstanding shares of our common stock are, and all shares our common stock to be outstanding upon completion of this offering will be, validly issued, fully paid and nonassessable.

Preferred Stock

As of April 28, 2004, there were 43,555,313 shares of convertible preferred stock outstanding. We have secured consents from the requisite number of stockholders to the automatic conversion of all outstanding shares of redeemable convertible preferred stock in connection with this offering. As a result, all outstanding shares of redeemable convertible preferred stock will be converted into 12,444,294 shares of our 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, as of the same date, there were warrants to purchase 1,939 shares of our preferred stock, of which warrants to purchase 249 shares will expire if not exercised prior to the completion of the offering.

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 our preferred stock after completion of this offering.

Warrants

As of April 28, 2004, there were warrants outstanding to purchase the following shares of our capital stock:

Description	Number of Shares Before This Offering	Weighted Average Exercise Price Before This Offering	Number of Shares After This Offering	Weighted Average Exercise Price After This Offering
Series E Preferred Stock	1,939	$ 607.20	1,690	$ 607.20
Common Stock	44,996	$ 13.14	44,996	$ 13.14

Warrants to purchase 1,477 shares of our Series E preferred stock will terminate five years after the date of this offering. Warrants to purchase 249 shares of our Series E preferred stock will terminate upon completion of this offering and warrants to purchase 213 shares of our Series E preferred stock will terminate on July 31, 2006. Warrants to purchase 7,452 shares of our common stock will terminate on certain dates from November 14, 2005 through April 22, 2009. Additionally, warrants to purchase 37,544 shares of our common stock will terminate on November 13, 2007.

Each of these warrants has a net exercise provision under which its holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of the underlying security at the time of exercise of the warrant after deduction of the aggregate exercise price. Each of these warrants also contains provisions for the adjustment of the exercise price and the aggregate number of shares issuable upon the exercise of the warrant in the event of stock dividends, stock splits, reorganizations and reclassifications and consolidations.

On May 7, 2004, we agreed to issue to two of our stockholders warrants to purchase an aggregate of 47,618 shares of our common stock within five business days of the completion of this offering. Such warrants will have a term of four years from the closing of this offering and a per share exercise price equal to the final price at which we sell shares of our common stock in this offering. In addition, the holders of these warrants received registration rights and became party to our amended and restated investors' rights agreement, as discussed more fully below. We may also enter into a similar agreement with an additional stockholder whereby we would issue such stockholder warrants to purchase up to 23,809 shares of our common stock on substantially the same terms outlined above.

We have granted registration rights pursuant to the terms of our amended and restated investors' rights agreement, as discussed more fully below, to a holder of warrants to purchase an aggregate of 213 shares of our Series E preferred stock.

Registration Rights

Under an amended and restated investors' rights agreement, the holders of a majority of the shares of our common stock issued upon the conversion of our Series A preferred stock, Series B preferred stock, Series C preferred stock, Series D preferred stock, Series E preferred stock, Series F preferred stock, Series G preferred stock and Series H preferred stock have the right to require us to register their shares with the Securities and Exchange Commission following the completion of this offering, so that those shares may be publicly resold, or to include their shares in any registration statement we file as follows:

Demand Registration Rights

At any time beginning one year after the completion of this offering, holders of at least 25% of the shares of our common stock issued upon the conversion of our Series A preferred stock, Series B preferred stock, Series C preferred stock, Series D preferred stock, Series E preferred stock, Series F preferred stock, Series G preferred stock and Series H preferred stock have the right to demand that we file up to two registration statements, so long as at least 20% of their registrable securities will be registered and/or

the proposed aggregate offering price of the securities registered, net of underwriting discounts and commissions, is at least $25,000,000, subject to specified exceptions.

Form S-3 Registration Rights

If we are eligible to file a "short-form" registration statement on Securities and Exchange Commission Form S-3, stockholders with registration rights have the right to demand that we file a registration statement on Form S-3 so long as the aggregate offering price of the securities to be sold under the registration statement on Form S-3, net of underwriting discounts and commissions, is at least $1,000,000, subject to specified exceptions.

"Piggyback" Registration Rights

If we register any securities for public sale solely for cash, stockholders with registration rights will have the right to include their shares in the registration statement. The underwriters of any underwritten offering will have the right to limit the number of such shares to be included in the registration statement. In this offering the underwriters have excluded any sales by existing investors.

Expenses of Registration

Other than underwriting discounts and commissions, we will pay all expenses relating to piggyback registrations and all expenses relating to demand registrations and Form S-3 registrations so long as the aggregate amount of securities to be sold under each such registration statement exceeds the threshold amounts discussed above. However, we will not pay for the expenses of any demand or Form S-3 registration if the request is subsequently withdrawn by the stockholders initiating these registration rights, subject to specified exceptions.

Expiration of Registration Rights

The registration rights described above will expire seven years after this offering is completed. The registration rights will terminate earlier for a particular stockholder at such time as that holder, following completion of this offering, can resell all of its securities in a 90-day period under Rule 144 of the Securities Act.

Anti-takeover Effects of Delaware Law and Provisions of Our Certificate of Incorporation and Bylaws

Delaware Takeover Statute

We are subject to Section 203 of the Delaware General Corporation Law. This statute regulating corporate takeovers prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for three years following the date that the stockholder became an interested stockholder, unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by 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

- on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least $66^2/3\%$ of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 defines a business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

Certificate of Incorporation and Bylaw Provisions

Provisions of our restated certificate of incorporation and restated bylaws, which will become effective upon the closing of this offering, may have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of our company by means of a tender offer, a proxy contest or otherwise. These provisions may also make the removal of incumbent officers and directors more difficult. These provisions are intended to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of our company to first negotiate with us. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions may make it more difficult for stockholders to take specific corporate actions and could have the effect of delaying or preventing a change in our control. The amendment of any of these anti-takeover provisions would require approval by holders of at least $66^2/3\%$ of our outstanding common stock entitled to vote.

In particular, our restated certificate of incorporation and restated bylaws provide for the following:

No Written Consent of Stockholders

Any action to be taken by our stockholders must be effected at a duly called annual or special meeting and may not be effected by written consent.

Special Meetings of Stockholders

Special meetings of our stockholders may be called only by the president, chief executive officer, chairman of the board of directors, a majority of the members of the board of directors or stockholders holding not less than 20% of the total number of votes to be cast at such a meeting.

Advance Notice Requirement

Stockholder proposals to be brought before an annual meeting of our stockholders must comply with advance notice procedures. These advance notice procedures require timely notice and apply in several situations, including stockholder proposals relating to the nominations of persons for election to the board of directors. Generally, to be timely, notice must be received at our principal executive offices not less than

90 days or more than 120 days prior to the first anniversary date of the annual meeting for the preceding year.

Amendment of Bylaws and Certificate of Incorporation

The approval of not less that $66^{2}/_{3}$% of the outstanding shares of our capital stock entitled to vote is required to amend the provisions of our restated bylaws by stockholder action, or to amend the provisions of our restated certificate of incorporation that are described in this section or that are described under "Management—Limitation of Liability and Indemnification of Officers and Directors" above. These provisions will make it more difficult to circumvent the anti-takeover provisions of our restated certificate of incorporation and our restated bylaws.

Issuance of Undesignated Preferred Stock

Our board of directors is authorized to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the board of directors. The existence of authorized but unissued shares of preferred stock enables our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

Nasdaq National Market Listing

We have applied for approval for trading and quotation of our common stock on the Nasdaq National Market under the symbol "DRAD."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock. If our stockholders sell substantial amounts of our common stock in the public market following this offering, the prevailing market price of our common stock could decline. Furthermore, because we do not expect many shares will be available for sale for 180 days after this offering as a result of certain contractual and legal restrictions on resale described below, sales of substantial amounts of our common stock in the public market after these restrictions lapse could adversely affect the prevailing market price and make it difficult or impossible for us to sell equity or equity-related securities in the future at a time and price we deem appropriate.

Upon completion of this offering, we will have 17,998,646 shares of common stock outstanding, assuming no exercise of currently outstanding options or warrants. Of these shares, the 5,500,000 shares sold in this offering, plus any additional shares sold upon exercise of the underwriters' over-allotment option, will be freely transferable without restriction under the Securities Act, unless they are held by our "affiliates" as that term is used under the Securities Act and the rules and regulations promulgated thereunder. The remaining 12,498,646 shares of common stock held by existing stockholders are restricted shares. Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 701 promulgated under the Securities Act, which rules are summarized below.

Taking into account the lock-up agreements described below and the provisions of Rules 144 and 701, based upon our shares outstanding as of March 31, 2004, additional shares will be available for sale in the public market, subject to certain volume and other restrictions, as follows:

- 243,845 restricted shares will be eligible for immediate sale on the effective date of this offering;
- 68,322 restricted shares will be eligible for sale 90 days after the date of this prospectus; and
- 12,186,479 restricted shares will be eligible for sale upon expiration of the lock-up agreements, which will occur 180 days after the date of this prospectus.

Lock-up Agreements

All of our directors and officers and substantially all of our stockholders and optionholders have signed lock-up agreements with respect to shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock for 180 days after the date of this prospectus. See "Underwriting" for more description of the lock-up agreements.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year, including the holding period of certain prior owners other than affiliates, is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the number of shares of our common stock then outstanding, which will equal approximately 179,986 shares immediately after the offering, or the average weekly trading volume of our common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale. Sales under Rule 144 are also subject to certain manner-of-sale provisions, notice requirements and the availability of current public information about us. Additionally, substantially all Rule 144 shares are subject to the 180-day lock-up arrangement described above.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale and who has beneficially owned shares for at least two years, including the holding period of certain prior owners other than affiliates, is entitled to sell those shares without complying with the volume limitations, manner-of-sale provisions, notice requirements and public information provisions of Rule 144. Therefore, unless restricted under the 180-day lock-up arrangement or otherwise, Rule 144(k) shares may be sold immediately upon the closing of this offering.

Rule 701

In general, under Rule 701 of the Securities Act as currently in effect, each of our directors, officers, employees, consultants or advisors who purchased shares from us before the date of this prospectus in connection with a compensatory stock plan or other written compensatory agreement is eligible to resell such shares 90 days after the effective date of this offering in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144. However, substantially all Rule 701 shares are subject to the 180-day lock-up arrangement described above.

Registration Rights

As described above in "Description of Capital Stock—Registration Rights," upon completion of this offering, the holders of 12,498,878 shares of our common stock, including shares issued upon conversion of our preferred stock and shares issued upon the exercise of certain of our warrants, will be entitled to rights with respect to the registration of their shares under the Securities Act, subject to the 180 day lock-up arrangement described above. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

Employee Benefit Plans

We intend to file with the Securities and Exchange Commission a registration statement on Form S-8 under the Securities Act covering the shares of common stock reserved for issuance under our 1991 Stock Option Program, 1997 Stock Option/Stock Issuance Plan, 1998 Stock Option/Stock Issuance Plan, 2004 Stock Incentive Plan and 2004 Non-Employee Director Stock Option Program. The registration statement is expected to be filed and become effective as soon as practicable after the completion of this offering. Accordingly, shares registered under the registration statement will be available for sale in the open market, subject to Rule 144 volume limitations applicable to affiliates, and subject to any vesting restrictions and lock-up agreements applicable to these shares.

UNDERWRITING

Under the terms and subject to the conditions contained in a purchase agreement dated the date of this prospectus, the underwriters named below, for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc., Banc of America Securities LLC and William Blair & Company, L.L.C. are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, severally, the number of shares indicated below:

Underwriters	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
J.P. Morgan Securities Inc.	
Banc of America Securities LLC	
William Blair & Company, L.L.C.	
Total	5,500,000

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The purchase agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of specified legal matters by their counsel and to other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $ per share under the public offering price. Any underwriter may allow, and such dealers may reallow, a concession not in excess of $ per share to other underwriters or to certain dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 825,000 additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table. If the underwriters' option is exercised in full, the total price to the public would be $, the total underwriters' discounts and commissions would be $ and the total proceeds to us would be $.

On behalf of the underwriting syndicate, Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc. will be responsible for recording a list of potential investors that have expressed an interest in purchasing shares of common stock as part of this offering.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of common stock offered by them.

We, each of our directors and officers and holders of substantially all of our outstanding stock have agreed that, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and

J.P. Morgan Securities Inc., we and they will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or

- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock,

whether any transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. These restrictions do not apply to:

- the sale of shares to the underwriters in connection with this offering;

- the issuance by us of shares of common stock upon the exercise of an option or a warrant or the conversion of a security outstanding on the date of this prospectus that is described in this prospectus;

- transfers by any person other than us of shares or other securities acquired in open market transactions after the completion of the offering, provided that no filing by the transferor under Rule 144 of the Securities Act or Section 16 of the Securities and Exchange Act is required or will be voluntarily made in connection with such transfer;

- the issuance by us of shares or options to purchase shares of common stock pursuant to our existing employee benefits plans described in this prospectus;

- transfers to limited partners or stockholders of the transferor, provided that the transfer does not involve a disposition for value; or

- transfers by any person other than us by gift, will or intestacy, or to immediate family members;

provided further that in the case of each of the last three transactions described above, the recipient of the shares agrees to be subject to the restrictions described in this paragraph.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of our common stock.

	Paid by Us	
	No Exercise	**Full Exercise**
Per share	$	$
Total	$	$

In addition, we estimate that the offering expenses payable by us, in addition to the underwriting discounts and commission, will be approximately $.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the purchase agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position.

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 this offering. In addition, to stabilize the price of the common stock, the underwriters may bid for, and purchase, shares of common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in this offering, if the syndicate repurchases previously distributed common stock in transactions to cover syndicate short positions or to stabilize the price of the common stock. Any of these activities may stabilize or maintain the market price of the common stock above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

Merrill Lynch Ventures, L.P. 2001, which is an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the underwriters, beneficially owns in the aggregate 1,670,301 shares, or 13.4%, of our common stock, assuming conversion of all of our outstanding convertible preferred stock.

Because we may be deemed to have a conflict of interest with Merrill Lynch, Pierce, Fenner & Smith Incorporated, the offering will be conducted in accordance with Conduct Rule 2720 of the National Association of Securities Dealers, Inc. This rule requires that the public offering price of any equity security be no higher than the price recommended by a qualified independent underwriter which has participated in the preparation of the registration statement and performed its usual standard of due diligence with respect to that registration statement. J.P. Morgan Securities Inc. has agreed to act as qualified independent underwriter for this offering. The price of the shares will be no higher than that recommended by J.P. Morgan Securities Inc. J.P. Morgan Securities Inc. will not receive any additional compensation for acting as qualified independent underwriter for this offering.

We have applied for quotation of our common stock on the Nasdaq National Market under the symbol "DRAD."

We and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

At our request, the underwriters have reserved for sale, at the initial public offering price, up to shares offered in this prospectus for sale to some of our directors, officers, employees, business associates and other persons with whom we have a relationship. The number of shares of common stock available for sale to the general public will be reduced to the extent these persons purchase reserved shares. Any reserved shares which are not orally confirmed for purchase within one day of pricing of this offering will be offered by the underwriters to the general public on the same basis as the other shares offered by this prospectus.

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiations between us and the representatives. Among the factors to be considered in determining the initial public offering price will be our future prospects and those of our industry in general, our revenues, earnings and other financial operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities and financial and operating information of companies engaged in activities similar to ours. The estimated initial public offering price range set forth on the cover page of this preliminary prospectus is subject to change as a result of market conditions and other factors. Any active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the market above the initial offering price.

LEGAL MATTERS

The validity of the shares of common stock offered in this prospectus will be passed upon for us by Morrison & Foerster LLP, San Diego, California. Certain legal matters in connection with the offering will be passed upon for the underwriters by Latham & Watkins LLP, San Diego, California.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements at December 31, 2002 and 2003, and for each of the three years in the period ended December 31, 2003, as set forth in their report. We have included our financial statements and schedule in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's reports, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock being offered by this prospectus. This prospectus does not contain all of the information in the registration statement and its exhibits. For further information about us and the common stock offered by this prospectus, we refer you to the registration statement and its exhibits. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

You can read our Securities and Exchange Commission filings, including the registration statement of which this prospectus is a part, over the Internet at the Securities and Exchange Commission's website at *www.sec.gov*. You may also read and copy any document we file with the Securities and Exchange Commission at its public reference facilities at 450 Fifth Street, N.W., Washington, D.C. 20549. You may also obtain copies of the document at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

Upon completion of this offering, we will be subject to the information reporting requirements of the Exchange Act and we will file reports, proxy statements and other information with the Securities and Exchange Commission. We also intend to furnish our stockholders with annual reports containing our financial statements audited by an independent public accounting firm and quarterly reports containing our unaudited financial information. We maintain a website at *www.digirad.com*. Upon completion of this offering, you may access our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act with the Securities and Exchange Commission free of charge at our website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. The reference to our web address does not constitute incorporation by reference of the information contained at this site.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2002 and 2003, and the related statements of operations, changes in stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2003. 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, 2002 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

San Diego, California
March 12, 2004
except for Note 9 "Changes in Capitalization,"
as to which the date is April 30, 2004

Digirad Corporation

Consolidated Balance Sheets

	December 31,		March 31, 2004	Pro forma redeemable convertible preferred stock and stockholders' equity at March 31, 2004
	2002	2003	(unaudited)	(unaudited)
Assets				
Current assets:				
Cash and cash equivalents	$ 6,987,666	$ 7,681,407	$ 8,901,690	
Accounts receivable, net	7,868,234	12,195,031	12,647,441	
Inventories, net	5,752,123	3,709,321	3,746,618	
Other current assets	502,805	854,170	677,211	
Total current assets	21,110,828	24,439,929	25,972,960	
Property and equipment, net	11,113,884	10,087,030	10,579,988	
Intangibles, net	894,528	511,832	518,345	
Other assets	—	—	820,609	
Restricted cash	—	120,000	120,000	
Total assets	$ 33,119,240	$ 35,158,791	$ 38,011,902	
Liabilities and stockholders' equity (deficit)				
Current liabilities:				
Accounts payable	$ 2,150,724	$ 3,036,209	$ 4,550,211	
Accrued compensation	1,721,107	1,893,336	2,413,444	
Accrued warranty	857,830	1,051,242	1,176,537	
Other accrued liabilities	3,102,109	2,647,741	3,762,414	
Deferred revenue	1,331,462	1,514,488	1,610,563	
Current portion of notes payable to stockholders	—	245,000	245,000	
Current portion of debt	8,166,421	11,473,619	11,386,143	
Total current liabilities	17,329,653	21,861,635	25,144,312	
Notes payable to stockholders, net of current portion	735,000	490,000	490,000	
Long-term debt, net of current portion	5,030,327	4,232,071	3,720,021	
Commitments and contingencies				
Redeemable convertible preferred stock, $0.000001 par value: 46,023,000 shares authorized at December 31, 2002, 2003 and March 31, 2004 (unaudited); 43,555,313 shares issued and outstanding at December 31, 2002, 2003 and March 31, 2004 (unaudited), none pro forma; liquidation value—$119,512,154 at December 31, 2002, 2003 and March 31, 2004 (unaudited), none pro forma (unaudited)	83,952,228	84,277,992	84,366,530	$ —
Stockholders' equity (deficit):				
Common stock, $0.001 par value: 213,692, 53,000,000 and 53,000,000 shares authorized at December 31, 2002, 2003 and March 31, 2004 (unaudited), respectively; 13,535, 23,540 and 54,352 shares issued and outstanding at December 31, 2002, 2003 and March 31, 2004 (unaudited), respectively, 12,498,646 outstanding pro forma (unaudited)	14	24	54	12,499
Additional paid-in capital	4,246,375	5,031,869	6,315,266	90,669,351
Deferred compensation	—	(554,375)	(1,489,767)	(1,489,767)
Accumulated deficit	(78,174,357)	(80,180,425)	(80,534,514)	(80,534,514)
Total stockholders' equity (deficit)	(73,927,968)	(75,702,907)	(75,708,961)	$ 8,657,569
Total liabilities and stockholders' equity (deficit)	$ 33,119,240	$ 35,158,791	$ 38,011,902	

See accompanying notes.

Digirad Corporation

Consolidated Statements of Operations

	Years ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
				(unaudited)	
Revenues:					
DIS	$ 10,239,256	$ 23,005,004	$ 34,848,641	$ 7,502,926	$ 10,406,978
Product	18,065,131	18,526,651	21,387,729	5,476,291	5,460,886
Total revenues	28,304,387	41,531,655	56,236,370	12,979,217	15,867,864
Cost of revenues:					
DIS	8,344,742	16,599,230	24,463,028	5,641,904	7,264,566
Product	13,192,140	13,632,437	15,091,721	3,840,943	3,639,340
Stock-based compensation	297,933	123,588	113,568	1,317	115,496
Total cost of revenues	21,834,815	30,355,255	39,668,317	9,484,164	11,019,402
Gross profit	6,469,572	11,176,400	16,568,053	3,495,053	4,848,462
Operating expenses:					
Research and development	3,008,651	2,967,055	2,190,570	579,274	640,151
Sales and marketing	9,974,027	8,065,497	6,007,858	1,546,531	1,780,405
General and administrative	8,160,558	9,496,794	8,097,349	1,851,327	2,145,470
Amortization and impairment of intangible assets	991,229	1,011,371	443,784	119,249	16,076
Stock-based compensation	1,280,733	482,581	112,659	708	187,292
Total operating expenses	23,415,198	22,023,298	16,852,220	4,097,089	4,769,394
Income (loss) from operations	(16,945,626)	(10,846,898)	(284,167)	(602,036)	79,068
Other income (expense):					
Interest income	118,174	65,078	35,412	10,943	7,907
Interest expense	(1,438,787)	(1,989,907)	(1,431,549)	(335,731)	(322,584)
Other expense	(1,644,542)	—	—	—	(29,942)
Total other income (expense)	(2,965,155)	(1,924,829)	(1,396,137)	(324,788)	(344,619)
Net loss	(19,910,781)	(12,771,727)	(1,680,304)	(926,824)	(265,551)
Accretion of deferred issuance costs on preferred stock	(130,274)	(265,146)	(325,764)	(85,350)	(88,538)
Net loss applicable to common stockholders	$ (20,041,055)	$ (13,036,873)	$ (2,006,068)	$ (1,012,174)	$ (354,089)
Basic and diluted net loss per share	$ (3,146.16)	$ (1,432.31)	$ (127.62)	$ (74.63)	$ (10.88)
Shares used in computing basic and diluted net loss per share	6,370	9,102	15,719	13,563	32,558
Pro forma basic and diluted net loss per share			$ (0.13)		$ (0.02)
Pro forma shares used to compute basic and diluted net loss per share			12,460,013		12,476,852
The composition of stock-based compensation is as follows:					
Cost of product revenue	$ 200,365	$ 72,000	$ 82,529	$ 35	$ 55,066
Cost of DIS revenue	97,568	51,588	31,039	1,282	60,430
Research and development	96,335	60,622	8,200	153	27,499
Sales and marketing	540,402	228,057	18,211	317	44,699
General and administrative	643,996	193,902	86,248	238	115,094
	$ 1,578,666	$ 606,169	$ 226,227	$ 2,025	$ 302,788

See accompanying notes.

Digirad Corporation

Consolidated Statements of Changes in Stockholders' Equity (Deficit)

	Common stock		Additional paid-in capital	Deferred compensation	Notes receivable from stockholders	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount					
Balance at December 31, 2000	6,235	$ 6	$ 2,239,727	$ (536,820)	$ (85,919)	$ (45,096,429)	$ (43,479,435)
Repayment of note receivable from stockholder	—	—	—	—	14,312	—	14,312
Exercise of common stock options	319	1	97,793	—	(5,312)	—	92,482
Issuance of options, warrants and other equity instruments to non-employees	—	—	192,652	—	—	—	192,652
Deferred compensation	—	—	1,715,521	(1,715,521)	—	—	—
Amortization of deferred compensation	—	—	—	1,386,014	—	—	1,386,014
Net loss	—	—	—	—	—	(19,910,781)	(19,910,781)
Accretion of deferred issuance costs on preferred stock	—	—	—	—	—	(130,274)	(130,274)
Balance at December 31, 2001	6,554	7	4,245,693	(866,327)	(76,919)	(65,137,484)	(61,835,030)
Conversion of preferred stock to common stock	6,905	7	48,375	—	—	—	48,382
Exercise of common stock options	67	—	46,332	—	—	—	46,332
Issuance of common stock for fractional shares following 1-to- 200 stock split	9	—	—	—	—	—	—
Issuance of warrants to non-employees	—	—	16,921	—	—	—	16,921
Issuance of warrants in connection with bridge financing	—	—	243,052	—	—	—	243,052
Reversal of deferred compensation resulting from forfeitures	—	—	(353,998)	353,998	—	—	—
Amortization of deferred compensation	—	—	—	512,329	—	—	512,329
Forfeiture/reserve of notes receivable from shareholders	—	—	—	—	76,919	—	76,919
Net loss	—	—	—	—	—	(12,771,727)	(12,771,727)
Accretion of deferred issuance costs on preferred stock	—	—	—	—	—	(265,146)	(265,146)
Balance at December 31, 2002	13,535	14	4,246,375	—	—	(78,174,357)	(73,927,968)
Exercise of common stock options	10,005	10	4,892	—	—	—	4,902
Deferred compensation	—	—	780,602	(780,602)	—	—	—
Amortization of deferred compensation	—	—	—	226,227	—	—	226,227
Net loss	—	—	—	—	—	(1,680,304)	(1,680,304)
Accretion of deferred issuance costs on preferred stock	—	—	—	—	—	(325,764)	(325,764)
Balance at December 31, 2003	23,540	24	5,031,869	(554,375)	—	(80,180,425)	(75,702,907)
Exercise of common stock options (unaudited)	30,812	30	15,067	—	—	—	15,097
Deferred compensation (unaudited)	—	—	1,228,130	(1,228,130)	—	—	—
Amortization of deferred compensation (unaudited)	—	—	—	292,738	—	—	292,738
Issuance of warrants to consultants (unaudited)	—	—	40,200	—	—	—	40,200
Net loss (unaudited)	—	—	—	—	—	(265,551)	(265,551)
Accretion of deferred issuance costs on preferred stock (unaudited)	—	—	—	—	—	(88,538)	(88,538)
Balance at March 31, 2004 (unaudited)	54,352	$ 54	$ 6,315,266	$ (1,489,767)	$ —	$ (80,534,514)	$ (75,708,961)

See accompanying notes.

Digirad Corporation

Consolidated Statements of Cash Flows

	Years ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
				(unaudited)	
Operating activities					
Net loss	$ (19,910,781)	$ (12,771,727)	$ (1,680,304)	$ (926,824)	$ (265,551)
Adjustments to reconcile net loss to net cash used by operating activities:					
Depreciation	1,941,637	2,648,410	2,811,204	685,756	719,805
Loss on disposal of assets	—	—	8,020	—	29,942
Amortization and impairment of intangibles	991,229	966,765	443,784	119,249	16,077
Stock-based compensation	1,386,014	589,248	226,227	2,025	292,738
Amortization of debt discount related to warrants issued in conjunction with debt	110,954	335,477	—	—	—
Options, warrants and other equity instruments issued to non-employees	192,652	16,921	—	—	10,050
Changes in operating assets and liabilities:					
Accounts receivable	(1,748,827)	(3,065,386)	(4,326,797)	(661,154)	(452,410)
Inventories	(4,749,603)	2,873,441	2,042,802	844,819	(37,297)
Other assets	(79,243)	167,082	(346,384)	88,501	(613,500)
Accounts payable	1,840,790	(2,312,844)	885,485	214,151	1,514,002
Accrued compensation	1,026,763	(384,173)	172,229	59,469	520,108
Accrued warranty and other accrued liabilities	1,899,894	100,907	(260,956)	(596,900)	1,239,968
Deferred revenue	329,959	1,001,503	183,026	118,430	96,075
Net cash provided by (used in) operating activities	(16,768,562)	(9,834,376)	158,336	(52,478)	3,070,007
Investing activities					
Purchases of property and equipment	(7,742,297)	(1,653,667)	(1,797,351)	(323,754)	(1,242,705)
Patents and other assets	(73,878)	(112,776)	(181,088)	(9,064)	(22,590)
Net cash used in investing activities	(7,816,175)	(1,766,443)	(1,978,439)	(332,818)	(1,265,295)
Financing activities					
Net issuances of common stock	92,482	46,332	4,902	—	15,097
Net borrowings under lines of credit	2,731,490	2,697,739	3,139,151	(101,873)	(174,290)
Proceeds from issuance of notes payable	—	2,154,656	—	—	—
Repayment of obligation under notes payable	(1,536,024)	(2,105,936)	—	—	—
Net proceeds from sale of preferred stock	14,145,810	15,549,982	—	—	—
Proceeds from capital lease financing	5,363,920	—	1,531,028	—	104,737
Repayment of obligations under capital leases	(815,567)	(1,721,255)	(2,161,237)	(491,481)	(529,973)
Repayment of notes receivable from stockholders	14,312	—	—	—	—
Net cash provided by (used in) financing activities	19,996,423	16,621,518	2,513,844	(593,354)	(584,429)
Net increase (decrease) in cash and cash equivalents	(4,588,314)	5,020,699	693,741	(978,650)	1,220,283
Cash and cash equivalents at beginning of period	6,555,281	1,966,967	6,987,666	6,987,666	7,681,407
Cash and cash equivalents at end of period	$ 1,966,967	$ 6,987,666	$ 7,681,407	$ 6,009,016	$ 8,901,690
Supplemental information:					
Cash paid during the period for interest	$ 1,485,467	$ 1,503,546	$ 1,326,173	$ 364,663	$ 318,925
Conversion of bridge notes into preferred stock	$ —	$ 1,575,000	$ —	$ —	$ —
Conversion of preferred stock to common stock	$ —	$ 48,382	$ —	$ —	$ —

See accompanying notes.

Digirad Corporation

Notes to Consolidated Financial Statements

(Information as of March 31, 2004 and for the three months ended March 31, 2003 and 2004 is unaudited)

1. The Company and Summary of Significant Accounting Policies

The Company

Digirad Corporation (the "Company"), a Delaware corporation, designs, develops, manufactures, markets, and services solid-state digital gamma cameras for use in nuclear medicine and provides, through two subsidiaries, Digirad Imaging Solutions, Inc. and Digirad Imaging Systems, Inc., collectively "DIS," in-office services for physicians, offering experienced licensed personnel and equipment that travel to the physician's office on a per day, contractual basis.

Basis of Presentation

The accompanying consolidated financial statements include the operations of DIS. Intercompany accounts have been eliminated in consolidation.

Interim Financial Information

The financial statements as of and for the three months ended March 31, 2003 and 2004 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 only of normal recurring adjustments, necessary to state fairly the financial information therein. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results that may be reported for the year ended December 31, 2004.

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. The Company's significant estimates include the reserve for doubtful accounts, contractual allowances and revenue adjustments, the reserves for excess and obsolete inventories, the reserve for warranty costs and the valuation allowance for deferred tax assets. Actual results could differ from those estimates.

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 fair market value.

Concentration of Credit Risk

The Company has primarily sold its products to customers in the United States and its possessions. Limited sales have also been made to customers in Canada, Japan and Russia. For the years ended December 31, 2001, 2002 and 2003, no product or DIS customer accounted for 10% or more of consolidated revenues.

The percentage of the Company's net DIS revenue derived from governmental agencies, such as Medicare, has continued to decline each year since services were initiated in 2000 to less than 5% of

consolidated revenue in the year ended December 31, 2003 and the three months ended March 31, 2004. 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, billing adjustments 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, are provided using the straight-line method over the shorter of the estimated useful lives of the related assets, which is three to seven years, or the lease term, if applicable.

Intangibles

Intangibles include patents, trademarks and acquired customer contracts and are recorded at cost. Patents are amortized over the lesser of their estimated useful or legal lives (up to 20 years). Trademarks are amortized over 10 years. Acquired customer contracts are amortized over their estimated useful lives, which is generally five years.

Impairment of Long-Lived Assets

The Company follows Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The scope of SFAS No. 144 includes long-lived assets, or groups of assets, to be held and used as well as those which are to be disposed of by sale or by other method, but excludes a number of long-lived assets such as goodwill and intangible assets not being amortized under the application of SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 144 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 estimated fair value of the assets.

During 2002 and 2003, the Company recorded $566,057 and $228,117, respectively, for impairment on customer contracts acquired for DIS. The Company regularly reviews the performance of these contracts, assessing each contract's profitability and ability to generate cash flow. If profitability is marginal based on volumes and/or pricing, the Company attempts to negotiate a new contract or mutually agrees with the physician to terminate the contract. If the contract is terminated, the remaining unamortized balance of the contract is written-off and recognized as an impairment loss in the period the Company determines the contract will be terminated.

Shipping and Handling Fees and Costs

The Company records all shipping and handling billings to a customer in a sales transaction as revenue earned for the goods provided in accordance with the Emerging Issues Task Force ("EITF") Issue 00-10, *Accounting for Shipping and Handling Fees and Costs*. The Company's revenues related to shipping and handling for all periods presented are immaterial. Shipping and handling costs are included in cost of revenues and were $300,133, $229,462, $251,536, $42,061 and $94,174 for 2001, 2002, 2003 and the three months ended March 31, 2003 and 2004, respectively.

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"). SAB 101 sets forth guidelines on the timing of revenue recognition based upon factors such as passage of title, installation, payment terms and customer acceptance.

The Company has two primary sources of revenue: 1) product sales, which includes the associated sale of maintenance services and 2) mobile in-office nuclear imaging services. Product revenues consist of revenues from the sales of gamma cameras and accessories and the Company recognizes revenue upon delivery to customers. The Company also provides installation and training for camera sales in the United States. Installation and training for sales outside of the United States is the responsibility of the distributors. Neither service is essential to the functionality of the product. Both services are performed shortly after delivery and represent an insignificant cost, which the Company accrues at the time revenue is recognized. The Company also sells or provides maintenance services beyond the first year following the purchase by the customer. Revenue from these contracts is deferred and recognized ratably over the period of the obligation and is included in product sales in the accompanying consolidated statements of operations.

DIS revenue is derived from the Company's mobile in-office nuclear imaging services. Revenue related to mobile imaging services is recognized at the time services are performed and disposables are provided and collection is reasonably assured. No product sales are included in DIS revenue. DIS services are generally billed on a per-day basis under annual contracts which specify the number of days of service to be provided. If a physician fails to complete a minimum number of lease days in a given annual period, the Company has the right to bill the physician for the shortfall and only recognizes the revenue upon collection. No material amounts have been billed or recognized as revenue since inception for customers who do not schedule the minimal number of lease days. The Company is compensated for mobile imaging services provided to patients directly from the physicians under contract or, on a smaller scale, from certain programs administered by governmental agencies and private insurance companies.

Unaudited Pro Forma Stockholders' Equity Presentation

The unaudited pro forma stockholders' equity information in the accompanying consolidated balance sheet assumes the conversion of the outstanding shares of redeemable convertible preferred stock into 12,444,294 shares of common stock as though the completion of the initial public offering had occurred on

March 31, 2004. Common shares issued in such initial public offering and any related estimated net proceeds are excluded from such pro forma information.

Stock-Based Compensation

The Company has elected to follow Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employee*s, and related Interpretations in accounting for its employee stock options as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. Under APB 25, if the exercise price of the Company's employee stock options is not less than the fair value of the underlying stock on the date of grant, no compensation expense is recognized. In determining the fair value of the common stock, the Board of Directors considered, among other factors, (i) the advancement of the Company's technology, (ii) the Company's financial position and (iii) the fair value of the Company's common stock or preferred stock as determined in arm's-length transactions. During 2001 the Company filed a registration statement with the Securities and Exchange Commission in an attempt to complete an initial public offering for the sale of its common stock. Based on discussions with its investment bankers regarding potential market value, the Company reviewed its historical exercise prices and arrived at a fair value for certain stock options granted in 2001 and recorded deferred stock compensation of $1,715,521, for the difference between the original exercise price per share determined by the Board of Directors and the estimate of fair value per share at the respective grant date. Based on market conditions and the Company's financial performance, the initial public offering was effectively terminated during the third quarter of 2001 and the Company had to complete a private round of financing to fund its ongoing operations (see Note 3). In conjunction with the Company's initial public offering contemplated by this prospectus, the Company reviewed its exercise prices and arrived at a fair value for certain stock options granted during the year ended December 31, 2003 and the three months ended March 31, 2004. The Company recorded deferred stock compensation of $780,602 and $1,228,130, respectively, for the year ended December 31, 2003 and three months ended March 31, 2004, for the difference between the original exercise price per share determined by the Board of Directors and the estimate of fair value per share at the respective grant date.

The approximate weighted average exercise price and approximate weighted average fair value per share for the 2,369 options granted during the year ended December 31, 2001 was $889.00 and $1,050.00, respectively. The approximate weighted average exercise price and approximate weighted average fair value per share for the 285,589 options granted during the year ended December 31, 2003 was $0.49 and $3.26, respectively. Deferred stock compensation is recognized and amortized on an accelerated basis in accordance with FASB Interpretation ("FIN") No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plan*s, 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, and 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, warrants, and other equity instruments is periodically remeasured and the related amortization is adjusted as necessary. Compensation expense related to stock options, warrants, and other equity instruments to acquire common stock issued to non-employees was $192,652 and $138,447 for the years ended December 31, 2001 and 2002, respectively. No material amounts of non-employee stock-based compensation were recorded in 2003.

The expected future amortization expense for deferred compensation as of March 31, 2004 is $703,784 in 2004, $485,355 in 2005, $230,910 in 2006, and $69,718 in 2007 for a total of $1,489,767.

Pro forma information regarding net loss is required by SFAS No.123, and has been determined as if the Company had accounted for all of 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 2001, 2002, and 2003: risk-free interest rates of 4%, 3.8% and 3% respectively; a dividend yield of 0%; and a life of the options of six, five and five years, respectively.

For purposes of disclosures required by SFAS No. 123, the estimated fair value of the options is amortized on an accelerated basis in accordance with FIN No. 28 over the vesting period. The Company's adjusted net loss information is as follows:

	Years ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
Net loss applicable to common stockholders, as reported	$ (20,041,055)	$ (13,036,873)	$ (2,006,068)	$ (1,012,174)	$ (354,089)
Add: total stock-based employee compensation included in reported net loss	1,386,014	512,329	226,227	2,025	292,738
Less: total stock-based employee compensation determined under the fair value method for all awards	(1,671,812)	(1,288,485)	(270,581)	(15,442)	(330,100)
Adjusted net loss	$ (20,326,853)	$ (13,813,029)	$ (2,050,422)	$ (1,025,591)	$ (391,451)
Basic and diluted net loss per share, as reported	$ (3,146.16)	$ (1,432.31)	$ (127.62)	$ (74.63)	$ (10.88)
Adjusted basic and diluted net loss per share	$ (3,191.03)	$ (1,517.58)	$ (130.44)	$ (75.62)	$ (12.02)

The above results are not likely to be representative of the effects of applying SFAS No.123 on reported net income or loss for future years.

Warranty

We provide a warranty on certain of our products and accrue the estimated cost at the time revenue is recorded. Warranty expense is charged to product cost of goods sold. Initially, the warranty periods were generally 12 months but have ranged up to 24 months. Since July 2002, substantially all of the warranty periods have been 12 months before customer-sponsored maintenance begins. Warranty reserves are established based on historical experience with failure rates and repair costs and the number of units at customers covered by warranty and are depleted as gamma cameras are repaired. The costs consist principally of materials, personnel, overhead and transportation. We review warranty reserves monthly and, if necessary, make adjustments. Historically, the Company has recorded adjustments for changes in

estimates and, solely at management's discretion, to retrofit cameras with new components to improve camera reliability. The activities in our warranty reserve during 2001, 2002 and 2003 are as follows:

Balance at December 31, 2000	$	1,034,000
Provision charged to cost of revenues		1,753,488
Reductions for actual charges incurred, net		(1,598,129)
Balance at December 31, 2001		1,189,359
Provision charged to cost of revenues		1,635,577
Reductions for actual charges incurred, net		(1,967,106)
Balance at December 31, 2002		857,830
Provision charged to cost of revenues		1,960,974
Reductions for actual charges incurred, net		(1,767,562)
Balance at December 31, 2003		1,051,242
Provision charged to cost of revenues		524,000
Reductions for actual charges incurred, net		(398,705)
Balance at March 31, 2004	$	1,176,537

Included in the above provision charged to cost of revenues are amounts for changes in estimates of historical failure rates and repair costs related to preexisting warranties and amounts for retrofit and/or minor component changes management, at its sole discretion, implemented to improve overall product reliability. These changes did not affect safety, efficacy, labeling or intended use as defined in the product specifications. These charges for the years ended December 31, 2001, 2002, and 2003 and for the quarter ended March 31, 2004, were $520,000, $550,000, $275,000 and zero, respectively.

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, 2001, 2002 and 2003 and the three months ended March 31, 2003 and 2004, were $411,940, $240,646, $231,617, $68,119 and $116,411, respectively.

Other Expense

In 2001, the Company recorded expense of $1,644,542 related to costs incurred in connection with a proposed public offering of common stock which was not completed.

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 No. 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 51,933, 13,866,966, 13,883,385 and 14,089,881 as of December 31, 2001, 2002, 2003 and March 31, 2004 respectively, were excluded from historical basic and diluted earnings per share because of their anti-dilutive effect.

The unaudited pro forma basic and diluted net loss per common share and pro forma basic and diluted weighted average common shares outstanding give effect to the conversion of all outstanding

shares of redeemable convertible preferred stock upon the completion of the Company's proposed initial public offering (using the as if-converted method).

	Years ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
Historical:					
Numerator:					
Net loss	$ (19,910,781)	$ (12,771,727)	$ (1,680,304)	$ (926,824)	$ (265,551)
Accretion of deferred issuance costs on preferred stock	(130,274)	(265,146)	(325,764)	(85,350)	(88,538)
Net loss applicable to common stockholders	$ (20,041,055)	$ (13,036,873)	$ (2,006,068)	$ (1,012,174)	$ (354,089)
Denominator:					
Weighted average common shares	6,493	9,102	15,719	13,563	32,558
Weighted average unvested common shares subject to repurchase	(123)	—	—	—	—
Denominator for basic and diluted earnings per share	6,370	9,102	15,719	13,563	32,558
Basic and diluted net loss per share	$ (3,146.16)	$ (1,432.31)	$ (127.62)	$ (74.63)	$ (10.88)
Pro forma:					
Net loss			$ (1,680,304)		$ (265,551)
Pro forma basic and diluted net loss per share (unaudited)			$ (0.13)		$ (0.02)
Shares used above			15,719		32,558
Pro forma adjustments to reflect weighted average effect of assumed conversion of preferred stock (unaudited)			12,444,294		12,444,294
Pro forma shares used to compute basic and diluted net loss per share (unaudited)			12,460,013		12,476,852

Recently Issued Accounting Standards

In November 2002, the FASB issued FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures required in financial statements concerning obligations under certain guarantees. The recognition provisions of the interpretation are effective in 2003 and are applicable only to guarantees issued or modified after December 31, 2002. The Company has not issued or modified any such guarantees and accordingly the interpretation did not have a material impact on our financial position, results of operations or cash flows for the fiscal year ended December 31, 2003.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*, an Interpretation of ARB No. 51. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In December 2003, the FASB issued FIN No. 46R, a revision to FIN No. 46. FIN No. 46R provides a broad deferral of the latest date by which all public entities must apply FIN No. 46 to certain variable interest entities to the first reporting period ending after March 15, 2004. We do not expect the adoption of FIN No. 46 or FIN No. 46R to have a material impact upon our financial position, cash flows or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material effect on our consolidated financial statements.

2. Financial Statement Details

The composition of certain balance sheet accounts is as follows:

Accounts Receivable

	December 31,		
	2002	2003	March 31, 2004
Accounts receivable	$ 8,538,972	$ 12,828,618	$ 13,397,375
Less reserves and allowance for doubtful accounts	(670,738)	(633,587)	(749,934)
	$ 7,868,234	$ 12,195,031	$ 12,647,441

Inventories

	December 31,		
	2002	2003	March 31, 2004
Raw materials	$ 1,655,874	$ 1,402,187	$ 1,358,383
Work-in-progress	3,691,639	2,203,700	2,425,510
Finished goods	643,729	439,739	321,523
	5,991,242	4,045,626	4,105,416
Less reserves for excess and obsolete inventories	(239,119)	(336,305)	(358,798)
	$ 5,752,123	$ 3,709,321	$ 3,746,618

Property and Equipment

	December 31,		
	2002	2003	March 31, 2004
Machinery and equipment	$ 14,885,708	$ 16,063,473	$ 16,870,169
Furniture and fixtures	261,875	241,989	241,989
Computers and software	2,006,555	2,326,609	2,372,499
Leasehold improvements	939,585	940,085	18,438
Construction in process	52,482	135,680	525,801
	18,146,205	19,707,836	20,028,896
Less accumulated depreciation and amortization	(7,032,321)	(9,620,806)	(9,448,908)
	$ 11,113,884	$ 10,087,030	$ 10,579,988

During 2000, 2001, 2003 and the three months ended March 31, 2004, the Company entered into a series of financing transactions structured as capital leases. The equipment, consisting of vans equipped with the Company's mobile gamma cameras, is used by DIS to provide mobile nuclear imaging services. The initial terms of these leases range from 36 to 63 months. The cost of the equipment financed was $6,082,148 ($1,816,149 of accumulated depreciation) at December 31, 2002 and $6,484,719 ($2,582,288 of accumulated depreciation) at December 31, 2003 and $6,629,310 ($2,840,794 of accumulated depreciation) at March 31, 2004.

Intangibles

	December 31,		
	2002	2003	March 31, 2004
Acquired customer contracts	$ 842,447	$ 244,921	$ 244,921
Patents and trademarks	503,027	482,900	505,490
	1,345,474	727,821	750,411
Less accumulated amortization	(450,946)	(215,989)	(232,066)
	$ 894,528	$ 511,832	$ 518,345

Other Accrued Liabilities

	December 31,		
	2002	2003	March 31, 2004
Sales tax payable	$ 657,353	$ 511,794	$ 456,515
Radiopharmaceuticals and consumable medical supplies	—	606,176	666,231
License fees	115,066	263,603	292,712
Customer deposits	832,676	294,550	346,327
Interest	122,122	109,272	92,481
Legal costs	797,954	121,000	122,618
Public offering costs	—	—	727,089
Other accrued liabilities	576,938	741,346	1,058,441
	$ 3,102,109	$ 2,647,741	$ 3,762,414

3. Debt

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

	December 31,		
	2002	2003	March 31, 2004
Lines of credit	$ 6,217,576	$ 9,356,727	$ 9,182,436
Capital lease obligations (Note 4)	6,979,172	6,348,963	5,923,728
	13,196,748	15,705,690	15,106,164
Current portion of debt	(8,166,421)	(11,473,619)	(11,386,143)
Long-term debt, less current portion	$ 5,030,327	$ 4,232,071	$ 3,720,021

Lines of Credit

Since December 2001, the Company has had a $5,000,000 line of credit which accrues interest at the bank's floating prime rate plus 1.75% (5.75% at December 31, 2003). The Company is required to make monthly interest payments. The revolving line of credit expires October 15, 2004 with any unpaid balance due upon expiration. $4,825,000 and $4,729,274 was outstanding as of December 31, 2003 and March 31, 2004, respectively.

In 2001, in conjunction with the amended line of credit, the Company issued the lender a warrant to purchase 213 shares of Series E preferred stock at a price of $607.20. The warrant is exercisable immediately and expires five years from the date of issuance. The fair value of the warrant was determined to be insignificant as calculated using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 75%; risk-free interest rate of 3%; and a life of three years.

In January 2001, the Company entered into a three year loan and security agreement related to DIS for a revolving line of credit. The Company can draw up to $5,000,000. The borrowings under the line of credit are limited to 85% of Qualified Accounts (as defined) and accrue interest at the higher of prime plus 1.25% or 8.25%. The revolving credit line expires December 31, 2004. $4,531,727 and $4,453,162 was outstanding as of December 31, 2003 and March 31, 2004, respectively. In March 2004, the borrowings under the line of credit were revised to accrue interest at the higher of prime plus 1.25% or 6%.

Notes Payable to Stockholders

The Company has notes payable to stockholders totaling $735,000 that bear interest at 6.35% per year. The notes are due in twelve equal quarterly installments starting on March 31, 2004. Accordingly, $245,000 is included as current portion of notes payable to stockholders at December 31, 2003 in the accompanying balance sheet.

In January 2002, the Company issued and sold convertible promissory notes in the aggregate principal amount of $1,925,000 bearing an annual interest rate of 12%. On May 7, 2002, holders of $1,425,000 of the convertible promissory notes elected to convert the principal balance and outstanding interest on the notes into Series H preferred stock. The remaining convertible promissory note balance of $500,000, plus accrued interest was repaid in June 2002. In consideration for the bridge loans, the Company issued to the noteholders warrants to purchase 227 shares of the Company's common stock at an exercise price of $1,050.00 per share (See Note 5).

In March 2002, the Company borrowed $150,000 from one of its stockholders under the terms of a secured loan bearing interest at 8% per annum. The loan plus accrued interest was converted into Series H preferred stock in June 2002.

The Company's borrowings are generally subject to financial and other restrictive covenants. The Company is in compliance with all covenants at December 31, 2003. Substantially all of the Company's assets have been pledged as collateral.

4. Commitments and Contingencies

Leases

The Company leases its facilities under non-cancelable operating leases that expire through 2010. Rent expense was $726,237, $887,340 and $1,028,895 (including common area charges) for the years ended December 31, 2001, 2002 and 2003, respectively. Annual future minimum lease payments as of December 31, 2003 are as follows:

	Operating Leases	Capital Leases
2004	$ 695,584	$ 2,741,210
2005	708,433	2,662,690
2006	668,063	1,533,943
2007	614,907	421,305
2008	554,412	145,523
Thereafter	619,400	—
Total minimum lease payments	$ 3,860,799	7,504,671
Less amount representing interest		(1,155,708)
Present value of future minimum capital lease obligations		6,348,963
Less amounts due in one year		(2,116,892)
Long-term portion of capital lease obligations		$ 4,232,071

Litigation

In 2001, a complaint was filed in the United States District Court for the Eastern District of Pennsylvania. The complaint alleged, among other things, breach of the terms of certain agreements. The Company settled the claim for $500,000, which was recorded in 2002 as a general and administrative expense in the statement of operations.

The Company is currently not involved in any litigation. In the future, however, the Company may from time to time become involved in litigation relating to claims arising in the normal course of business, such as claims related to employment practices, product liability or patent infringement.

Compliance with Laws and Regulations

The Company is directly or indirectly through its clients, subject to extensive regulation by both the federal government and the states and foreign countries in which it conducts its business. The healthcare laws applicable to the Company are complex and are subject to variable interpretations. The Company has established a compliance program to help ensure that it will remain in compliance with the applicable healthcare laws and has instituted other safeguards intended to help prevent any violations of the laws and to remediate any situations that could give rise to violations.

In 2004, the Company discovered certain isolated arrangements entered into in good faith but that, upon review by its compliance personnel, raised some compliance concerns under these laws. In accordance with its compliance program, the Company took immediate remedial steps. While there have been no claims asserted against the Company, it cannot be assured that those remedial steps will insulate the Company from liability associated with these isolated arrangements. Although uncertain, if a claim

were asserted and the Company were not to prevail, possible sanctions could have a material effect on the Company's financial statements or the Company's ability to conduct its operations.

5. Redeemable Convertible Preferred Stock and Stockholders' Equity

Reverse Stock Split

In October 2002, the Board of Directors and stockholders approved a 1:200 reverse split of the Company's common stock and preferred stock. All share and per share information in the accompanying consolidated financial statements and notes thereto have been restated to reflect the stock split.

Redeemable Convertible Preferred Stock

At December 31, 2003, the various series of preferred stock outstanding are as follows:

Date issued	Series	Issuance price per share	Number of shares	Liquidation value December 31, 2003	Liquidation value March 31, 2004
March 1995	A	$ 200.00	250	$ 50,000	$ 50,000
December 1995	B	$ 220.00	—	—	—
August 1997	C	$ 250.00	800	200,000	200,000
August 1997	D	$ 461.46	2,130	982,910	982,910
June 1998 through April 2001	E	$ 607.20	5,447	3,307,418	3,307,418
August 2001	F	$ 650.00	770	500,500	500,500
April, May, and June 2002	G	$ 2.00	30,984,210	61,968,420	61,968,420
April, May, and June 2002	H	$ 1.39	12,561,706	52,502,906	52,502,906
			43,555,313	$ 119,512,154	$ 119,512,154

On April 23, 2002, the stockholders agreed to recapitalize the Company and entered into a Stock Purchase and Exchange Agreement under which the Company sold Series H preferred stock and exchanged shares of Series A, B, C, D, E and F preferred stock for Series G preferred stock for those Existing Stockholders (as defined) that purchased their pro-rata amount of Series H preferred stock. The Company received $15,846,149 in cash and $1,654,656 from the conversion of bridge notes and related accrued interest as consideration. The Company incurred $346,168 of offering costs related to the financing. The Company issued 12,561,706 Series H preferred shares and on conversion of 139,343 Series A, B, C, D, E, and F preferred shares, the Company issued 30,984,210 Series G preferred shares.

Deferred issuance costs through December 31, 2002, 2003 and the three months ended March 31, 2004 for all series of preferred stock totaled $982,043 and are being accreted up to the redemption value through July 31, 2004 (the earliest redemption date). Unamortized deferred issuance costs are $213,512 and $124,974 at December 31, 2003 and March 31, 2004.

The preferred stock is redeemable on or after July 31, 2004, upon the request of at least half in number of the Major Investors (as defined). The Company shall redeem all outstanding shares of preferred stock by paying in cash its redemption value plus declared but unpaid dividends. No dividends

have been declared through March 31, 2004. The redemption value for each series of preferred stock is equal to its issuance price, except for Series H, which is equal to $4.1796 per share or $52,502,906 in total.

If the funds of the Company legally available for redemption are insufficient to redeem the total number of preferred shares to be redeemed, those funds which are legally available will be used to redeem the maximum possible ratably over the various series of preferred stock. If the offering contemplated by this prospectus is not completed, and the redeemable preferred shares remain outstanding, the Company does not anticipate having legally available funds to redeem any portion of these preferred shares in 2004 or in the forseeable future beyond 2004. For the same reason the Company has not accreted up the $35 million difference between the issuance value and the redemption value.

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 $25,000,000 at a price equal to or exceeding $4.1796 per share of common stock, or with the approval of at least half in number of Major Investors (as defined) and holders of a majority in interest of the then outstanding voting power of the Series H preferred stock. Each share of preferred stock is convertible, at the option of the holder, into one share of common stock, except for Series F which is convertible into 1.07 shares of common stock, subject to certain antidilution adjustments for certain equity issuances after April 23, 2002.

Holders of the Series A, B, C, D, E, F, G, and H preferred stock are entitled to receive non-cumulative dividends, if and when declared by the Board of Directors, at a rate of $20.00, $22.00, $25.00, $46.146, $60.72, $65.00, $0.20, and $0.13932 per share per annum, respectively. The holder of Series G and H preferred stock are entitled to receive dividends prior and in preference to any declaration or payment of dividends (payable other than in common stock) on series A, B, C, D, E, or F preferred stock, with series H preferred stock having prior preference to Series G preferred stock. 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 both (a) half in number of the Major Investors and (b) the holders of a majority of the then outstanding voting power of the Series H preferred stock. The stockholders also have certain antidilutive rights.

The Series H preferred stockholders, voting as a separate class, are entitled to elect three members of the board of directors; Series G preferred stock holders, voting as a separate class, are entitled to elect two members of the board of directors; and any additional member of the board of directors shall be elected by the holders of Series A, B, C, D, E, and F and common stockholders, voting as a separate class.

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.

Warrants

During the year ended December 31, 2001, in conjunction with various sales and marketing arrangements, the Company issued warrants to purchase 300 shares of the Company's common stock at prices ranging from $700.00 to $2,128.00 per share. Warrants for 216 shares of common stock are exercisable immediately and expire five years from the date of issuance. The remaining 84 warrants vest 29 warrants per year beginning July 2002 and expire in July 2006. The fair value of the warrants was $144,100.

During the year ended December 31, 2002, in conjunction with sales and marketing arrangements, the Company issued warrants to purchase 57,144 shares of the Company's common stock at $4.90 per share. In conjunction with consulting agreements, the Company issued warrants to purchase 16 shares of the Company's common stock at $2,100.00 per share.

The warrants are exercisable immediately, and expire five years from the date of issuance. The fair value of the warrants was $16,921.

During the year ended December 31, 2003, in conjunction with sales and marketing arrangements, the Company issued warrants to purchase 429 shares of the Company's common stock at $0.49 per share. The warrants are exercisable immediately and expire five years from the date of issuance. The fair value of the warrants is not material.

During the three months ended March 31, 2004, in conjunction with various consulting arrangements, the Company issued warrants to purchase 5,715 shares of the Company's common stock at $5.50 per share. The fair value of the warrants was $40,200.

All of the warrants were valued using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 75%; risk-free interest rates ranging from 3% to 6%; and a term of three years.

Stock Options

Under the Company's 1991 Stock Option Program, 1997 Stock Option/Stock Issuance Plan and 1998 Stock Option/Stock Issuance Plan, the Company is authorized to issue an aggregate of 1,682,807 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.

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

	Shares		Weighted average exercise price
Outstanding at December 31, 2000	6,594	$	294.57
Granted	3,008	$	910.04
Cancelled	(798)	$	741.83
Exercised	(410)	$	292.38
Outstanding at December 31, 2001	8,394	$	471.80
Granted	1,462,293	$	0.68
Cancelled	(106,273)	$	16.64
Exercised	(99)	$	625.76
Outstanding at December 31, 2002	1,364,315	$	2.29
Granted	285,589	$	0.49
Cancelled	(259,602)	$	2.84
Exercised	(10,005)	$	0.49
Outstanding at December 31, 2003	1,380,297	$	1.83
Granted	244,579	$	5.50
Cancelled	(12,545)	$	2.80
Exercised	(30,812)	$	0.49
Outstanding at March 31, 2004	1,581,519	$	2.42

As of December 31, 2001, 2002, 2003 and March 31, 2004, 350,501, 316,894, 290,899 and 58,904 shares, respectively, were available for future grants.

Following is a further breakdown of the options outstanding as of:

December 31, 2003

Exercise price	Options outstanding	Weighted average contractual life in years	Weighted average exercise price of options outstanding	Vested options	Weighted average exercise price of vested options
$0.49	1,377,199	8.6	$ 0.49	848,067	$ 0.49
$147 - $245	623	3.8	$ 196.35	623	$ 196.35
$350 - $525	1,381	5.0	$ 404.11	1,381	$ 404.11
$700	309	5.9	$ 700.00	309	$ 700.00
$1,050	667	7.0	$ 1,050.00	667	$ 1,050.00
$1,400	21	7.6	$ 1,400.00	21	$ 1,400.00
$2,100 - $2,128	39	7.1	$ 2,120.10	39	$ 2,120.10
$2,450	58	6.4	$ 2,450.00	58	$ 2,450.00
	1,380,297	8.6	$ 1.83	851,165	$ 2.66

March 31, 2004

Exercise Price	Options outstanding	Weighted average contractual life in years	Weighted average exercise price of options outstanding	Vested options	Weighted average exercise price of vested options
$0.49	1,333,872	8.6	$ 0.49	886,243	$ 0.49
$5.50	244,579	9.9	$ 5.50	929	$ 5.50
$147 - $245	623	3.5	$ 196.35	623	$ 196.35
$350 - $525	1,381	4.8	$ 404.11	1,381	$ 404.11
$700	302	5.8	$ 700.00	302	$ 700.00
$1,050	644	7.0	$ 1,050.00	644	$ 1,050.00
$1,400	21	7.3	$ 1,400.00	21	$ 1,400.00
$2,100 - $2,128	39	6.8	$ 2,120.10	39	$ 2,120.10
$2,450	58	6.1	$ 2,450.00	58	$ 2,450.00
	1,581,519	8.8	$ 2.42	890,240	$ 2.54

The weighted average fair values of options granted in 2001, 2002 and 2003 were $1,394.65, $0.07 and $2.92, respectively.

Bridge Notes

On January 25, 2002, the Company executed bridge loans in the form of Convertible Promissory Notes and associated Warrant Purchase Agreements with various investors for total gross proceeds of $1,925,000. The notes bore interest at 12% per annum and ultimately were converted into Series H Preferred Stock. The warrants allowed the investors to purchase 227 shares of the Company's common stock over the next five years at $1,050.00 per share. The proceeds from the financing were allocated to the carrying values of the notes and the warrants on the basis of their relative fair values at the date of issuance and which also created a beneficial conversion feature equal to the fair value of the warrants. The separate fair value of the notes was equal to their face values on the basis of their terms. The separate fair value of

the warrants and the separate value of the beneficial conversion feature was each determined to be $121,526 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 75%, risk-free interest rate of 3.8% and expected life of three years. The resulting discount on the notes of $243,052 was amortized to interest expense over the period the notes were outstanding. With the exception of $500,000 that was repaid in cash, the notes and accrued interest were converted into Series H preferred stock over the three closing dates of the Series H preferred stock between April 23, 2002 and June 17, 2002.

Notes Receivable from Stockholders

At December 31, 2001, the Company had notes receivable from employee stockholders of $76,919. 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. During 2002, in conjunction with a recapitalization, the Company wrote-off the value of the notes receivable since the underlying shares had little or no value and collection of the notes was unlikely. In the future, if the Company provides financing for employees to purchase stock options, the Company will account for options under variable plan accounting in accordance with EITF Issue No. 95-16, *Accounting for Stock Compensation Arrangements with Employer Loan Features Under APB Opinion No. 25*.

Common Shares Reserved for Issuance

The following table summarizes common shares reserved for future issuance at March 31, 2004:

Redeemable convertible preferred stock	12,444,294
Redeemable convertible preferred stock warrants	554
Common stock warrants	63,417
Common stock options	1,640,423
Total common shares reserved for issuance	14,148,688

6. Income Taxes

As of December 31, 2003, the Company had federal and California income tax net operating loss carryforwards of approximately $71,600,000 and $38,300,000, respectively. The difference between the federal and California tax loss carryforwards is primarily attributable to the limitation in the utilization of California net operating loss carryforwards, which ranges from 50% to 60% during the period from 1996 to 2003. The federal tax loss carryforwards will begin expiring in 2006 unless previously utilized. The California tax loss carryforwards will begin to expire in 2004 unless previously utilized. The Company also has federal and California research and development and other credit carryforwards of approximately $1,900,000 and $1,300,000, respectively. The federal research and development and other credit carryforwards begin to expire in 2005 unless previously utilized.

Pursuant to Internal Revenue Code Sections 382 and 383, use of the Company's net operating loss and credit carryforwards may be limited because of a cumulative change in ownership of more than 50%, which may have occurred.

Significant components of the Company's deferred tax assets are shown below. A valuation allowance has been recognized to offset the deferred tax assets, as realization of such assets has not met the "more likely than not" threshold required under SFAS No. 109.

	December 31,	
	2002	2003
Deferred tax assets:		
Net operating loss carryforwards	$ 26,832,000	$ 27,254,000
Research and development and other credits	3,187,000	3,037,000
Reserves	741,000	856,000
Capitalized research expense	279,000	181,000
Capitalized inventory costs	238,000	117,000
Other, net	1,179,000	1,164,000
Total deferred tax assets	32,456,000	32,609,000
Deferred tax liabilities—depreciation and amortization	(949,000)	(1,567,000)
Valuation allowance for deferred tax assets	(31,507,000)	(31,042,000)
Net deferred tax assets	$ —	$ —

7. Segments

The Company's 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 based on the operating income contributed by each segment. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

	Years ended December 31,			Three months ended March 31,	
	2001	2002	2003	2003	2004
Revenues by segment:					
DIS	$ 10,239,256	$ 23,005,004	$ 34,848,641	$ 7,502,926	$ 10,406,978
Product	18,065,131	18,526,651	21,387,729	5,476,291	5,460,886
Consolidated revenues	$ 28,304,387	$ 41,531,655	$ 56,236,370	$ 12,979,217	$ 15,867,864
Gross profit by segment:					
DIS	$ 1,796,946	$ 6,354,186	$ 10,354,574	$ 1,859,740	$ 3,081,982
Product	4,672,626	4,822,214	6,213,479	1,635,313	1,766,480
Consolidated gross profit	$ 6,469,572	$ 11,176,400	$ 16,568,053	$ 3,495,053	$ 4,848,462
Net loss by segment:					
Loss from operations					
DIS	$ (6,046,596)	$ (5,420,551)	$ 1,648,768	$ (257,390)	$ 510,698
Product	(10,899,030)	(5,426,347)	(1,932,935)	(344,646)	(431,630)
Consolidated income (loss) from operations	(16,945,626)	(10,846,898)	(284,167)	(602,036)	79,068
Reconciling items					
Interest income	118,174	65,078	35,412	10,943	7,907
Interest expense	(1,438,787)	(1,989,907)	(1,431,549)	(335,731)	(322,584)
Other income (expense)	(1,644,542)	—	—	—	(29,942)
Consolidated net loss	$ (19,910,781)	$ (12,771,727)	$ (1,680,304)	$ (926,824)	$ (265,551)
Depreciation, amortization and impairment of intangible assets by segment:					
DIS	$ 1,767,170	$ 2,451,557	$ 2,151,731	$ 533,583	$ 500,541
Product	1,165,696	1,163,618	1,103,257	271,422	235,341
Consolidated depreciation and amortization	$ 2,932,866	$ 3,615,175	$ 3,254,988	$ 805,005	$ 735,882
Identifiable assets by segment:					
DIS	$ 13,586,502	$ 14,710,088	$ 16,016,201	$ 15,263,960	$ 17,329,671
Product	16,335,908	18,409,152	19,142,590	16,132,277	20,682,231
Consolidated assets	$ 29,922,410	$ 33,119,240	$ 35,158,791	$ 31,396,237	$ 38,011,902

Sales to a distributor in Japan represented 2.2% of total revenues for the year ended December 31, 2001, sales to a customer in Puerto Rico represented less than 1% of total revenues for the years ended December 31, 2002 and 2003 and sales to a customer in Russia represented less than 3% of total revenues for the year ended December 31, 2003. Sales to a customer in Canada represented less than 2% of total revenues for the three months ended March 31, 2004.

8. Employee Retirement Plan

The Company has a 401(k) retirement plan (the "Plan"), under which all full-time employees may contribute up to 20% of their annual salary, within limits. The Company may elect to make discretionary contributions upon the approval of the Board of Directors. Through March 31, 2004, the Company had not contributed to the Plan.

9. Subsequent Events

Changes in Capitalization

On April 27, 2004, the Company's board of directors approved the following:

- Upon the effectiveness of the initial public offering contemplated by this prospectus, to reserve 1,400,000 shares of common stock for issuance pursuant to the 2004 Stock Incentive Plan;

- Upon the effectiveness of the initial public offering contemplated by this prospectus, the filing of an amended and restated certificate of incorporation to provide for 150,000,000 shares of authorized common stock and 10,000,000 shares of undesignated preferred stock; and

- The 1-for-3.5 reverse split of the outstanding common stock to be effected prior to completion of this offering.

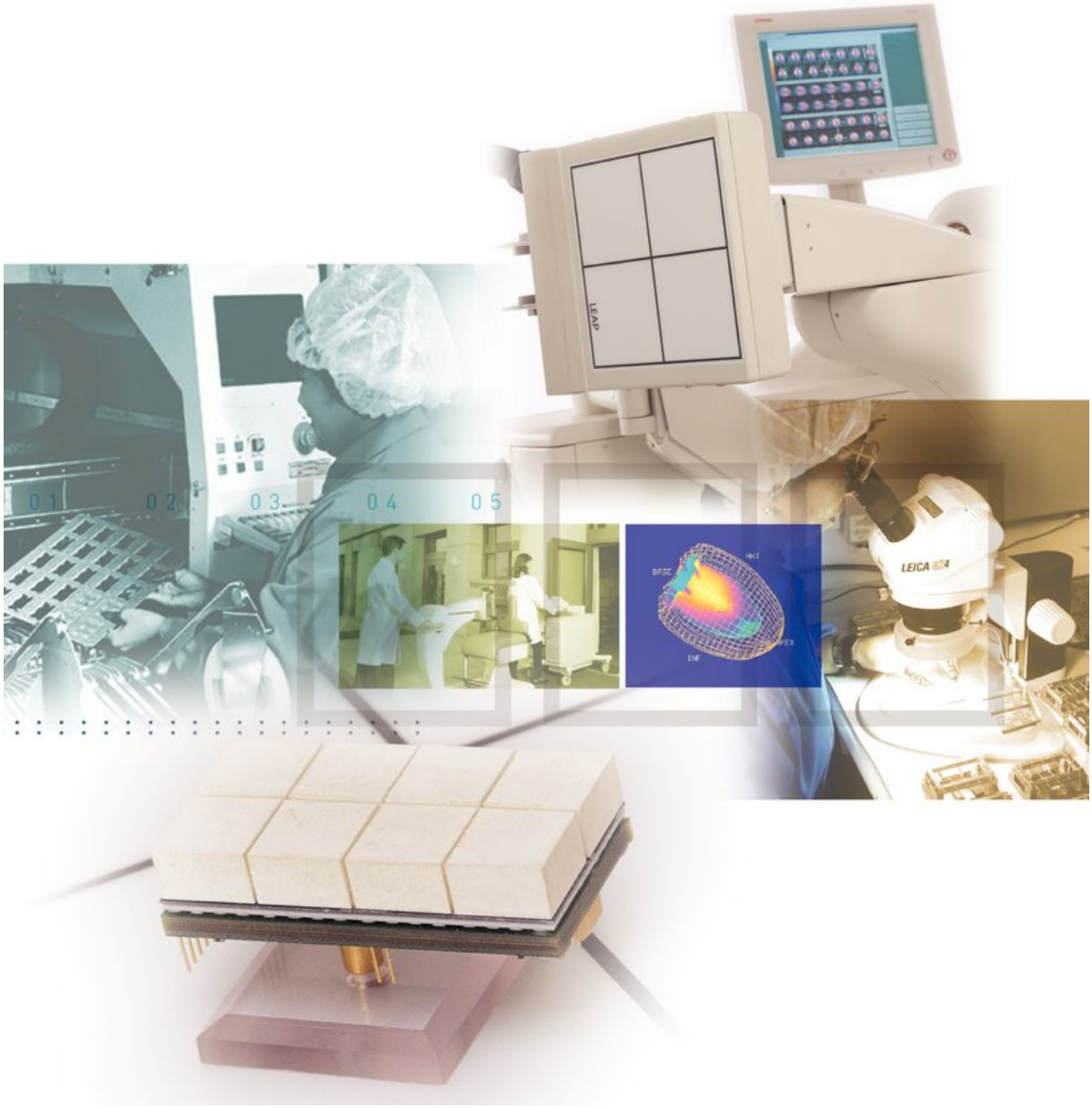
The 1-for-3.5 reverse stock split was approved by the Company's stockholders on April 30, 2004. The accompanying financial statements give retroactive effect to the reverse stock split for all periods presented.

Settlement Agreement

On April 29, 2004, the Company and certain outside consultants agreed to terminate the existing consulting agreements between them and as a result, 20,281 outstanding warrants were cancelled. There was no impact on the financial statements for the termination of the agreements or cancellation of the warrants.

Loan Modification and Warrant Issuance

On May 7, 2004, the Company agreed to accelerate payments due under certain notes payable and issue warrants to two of its stockholders following the consummation of the initial public offering contemplated by this prospectus. The warrants to purchase 47,618 shares of common stock will be valued using the Black-Scholes option pricing model. The fair value of these warrants is estimated to be approximately $355,000.


LEAP
01
02
03
04
05
LEICA

5,500,000 Shares

Common Stock

PROSPECTUS

Merrill Lynch & Co.

JPMorgan

Banc of America Securities LLC

William Blair & Company

, 2004

Through and including , 2004 (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.

PART II—INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than the underwriting discount, payable by the registrant in connection with the sale of common stock being registered. All amounts are estimates except the Securities and Exchange Commission registration fee and the National Association of Securities Dealers Inc. filing fee.

SEC registration fee	$	11,220
NASD filing fee		9,355
Nasdaq National Market application fee		5,000
Nasdaq National Market entry fee		95,000
Nasdaq National Market annual fee (prorated for 2004)		14,811
Accounting fees and expenses		500,000
Legal fees and expenses		800,000
Printing and engraving expenses		200,000
Blue sky fees and expenses		5,000
Transfer agent and registrar fees and expenses		20,000
Miscellaneous		34,614
Total	$	1,695,000

Item 14. Indemnification of Directors and Officers

As permitted by Section 102 of the Delaware General Corporation Law, we have adopted provisions in our restated certificate of incorporation and restated bylaws, which will become effective following the completion of this offering, that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any act related to unlawful stock repurchases, redemptions or other distributions or payment of dividends; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not affect the availability of equitable remedies such as injunctive relief or rescission. Our restated certificate of incorporation also authorizes us to indemnify our officers, directors and other agents to the fullest extent permitted under Delaware law.

As permitted by Section 145 of the Delaware General Corporation Law, our restated bylaws provide that:

- we may indemnify our directors, officers, and employees to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions;
- we may advance expenses to our directors, officers and employees in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and

- the rights provided in our restated bylaws are not exclusive.

Our restated certificate of incorporation, attached as Exhibit 3.1 hereto, and our restated bylaws, attached as Exhibit 3.2 hereto, provide for the indemnification provisions described above and elsewhere herein. In addition, we have entered into separate indemnification agreements, a form of which is attached as Exhibit 10.20 hereto, with our directors and officers which may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements require us, among other things, to indemnify our officers and directors against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct. These indemnification agreements also require us to advance any expenses incurred by the directors or officers as a result of any proceeding against them as to which they could be indemnified. In addition, we have purchased a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment in some circumstances. These indemnification provisions and the indemnification agreements may be sufficiently broad to permit indemnification of our officers and directors for liabilities, including reimbursement of expenses incurred, arising under the Securities Act.

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:

Document	Exhibit Number
Form of Underwriting Agreement	1.1
Form of Restated Certificate of Incorporation to be in effect upon the closing of this offering	3.1
Form of Restated Bylaws to be in effect upon the closing of this offering	3.2
Form of Indemnification Agreement	10.20

Item 15. Recent Sales of Unregistered Securities

The following list sets forth information regarding all securities we have sold since January 2001. All share amounts and per share prices reflect a 1-for-200 reverse stock split that was effected in October 2002 and a 1-for-3.5 reverse stock split of our common stock to be effected prior to completion of this offering.

(1) In January, March and April 2001, we issued and sold to investors 9,694 shares of our Series E preferred stock, at a purchase price of $607.20 per share, for aggregate consideration of approximately $5.9 million.

(2) In January, March, May, July and December 2001, we issued to certain consultants, in connection with and in partial consideration for services rendered to us, warrants to purchase an aggregate of 386 shares of our common stock at exercise prices ranging from $700.00 to $2,128.00 per share. Upon completion of this offering, these warrants will remain exercisable for an aggregate of 386 shares of our common stock at exercise prices ranging from $700.00 to $2,128.00 per share.

(3) In January and December 2001, we issued to a consulting firm, in connection with and in partial consideration for services rendered to us, warrants to purchase 29 and 7 shares of our common stock, respectively, at an exercise price of $1,400.00 and $2,100.00 per share, respectively. Upon completion of this offering, these warrants will remain exercisable for 29 and 7 shares of our common stock, respectively, at an exercise price of $1,400.00 and $2,100.00 per share, respectively.

(4) In July 2001, we issued to a commercial lender, in connection with and in partial consideration for a loan we received, a warrant to purchase 213 shares of our Series E preferred stock at an exercise price of $607.20 per share. Upon completion of this offering, this warrant will be immediately exercisable for 61 shares of our common stock at an exercise price of $2,125.20 per share.

(5) In August 2001, we issued and sold to investors 13,092 shares of our Series F preferred stock, at a purchase price of $650.00 per share, for aggregate consideration of approximately $8.5 million.

(6) In January 2002, we issued to certain existing investors and a new investor convertible promissory notes bearing 12% interest per annum in connection with a borrowing of an aggregate of approximately $2.0 million from those stockholders and that investor.

(7) In January 2002, and in connection with the convertible promissory note issuance described in paragraph (3), we issued and sold the parties referred to in paragraph (3) warrants to purchase an aggregate of 227 shares of our common stock for $0.70 per underlying share. Upon the completion of this offering, these warrants will remain exercisable for an aggregate of 227 shares of our common stock at an exercise price of $1,050.00 per share.

(8) In April 2002, each of the convertible promissory notes described in paragraph (6) was converted into shares of our Series H preferred stock.

(9) In April, May and June 2002, we issued shares of our Series G preferred stock to existing investors upon their exchange of 9,611 shares of our Series E preferred stock, for no additional consideration to us. Upon the completion of this offering, the 5,447 shares of our Series E preferred stock outstanding as of December 31, 2003 will convert into 1,554 shares of our common stock.

(10) In April, May and June 2002, we issued shares of our Series G preferred stock to existing investors upon their exchange of 12,322 shares of our Series F preferred stock, for no additional consideration to us. Upon the completion of this offering, the 770 shares of our Series F preferred stock outstanding as of December 31, 2003 will convert into approximately 235 shares of our common stock.

(11) In April, May and June 2002, we issued and sold 31,008,401 shares of our Series G preferred stock to existing investors, at a purchase price of $2.00 per share, in exchange for the conversion of outstanding shares of our Series A, Series B, Series C, Series D, Series E and Series F preferred stock having an aggregate liquidation value of approximately $62.0 million.

(12) Following the issuances of our Series G preferred stock referred to in paragraphs (9), (10) and (11), we issued shares of our common stock to existing investors upon their election to convert 24,191 shares of Series G preferred stock. Upon the completion of this offering, the 30,984,210 shares of Series G preferred stock outstanding as of December 31, 2004 will convert into 8,852,664 shares of our common stock.

(13) In April, May and June 2002, and concurrently with the conversion of the outstanding shares of our Series A, Series B, Series C, Series D, Series E and Series F preferred stock described in paragraph (11), we issued and sold to investors 12,561,706 shares of our Series H preferred stock, at a purchase price of $1.39 per share, for aggregate consideration of approximately $17.5 million. Upon the completion of this offering, the 12,561,706 shares of our Series H preferred stock outstanding as of December 31, 2003 will convert into 3,588,952 shares of our common stock.

(14) In March 2002, we issued to two of our consultants, in connection with services rendered to us, warrants to purchase an aggregate of 16 shares of our common stock at an exercise price of $2,100.00 per share. Upon the completion of this offering, these warrants will remain exercisable for an aggregate of 16 shares of our common stock at an exercise price of $2,100.00 per share.

(15) In November 2002, we issued to a third party consulting firm, in connection with services rendered to us, warrants to purchase an aggregate of 28,572 shares of our common stock at an exercise price of $4.90 per share. Upon the completion of this offering, these warrants will remain exercisable for an aggregate of 28,572 shares of our common stock at an exercise price of $4.90 per share.

(16) In November 2002, we issued to the two principals of the third party consulting firm described in paragraph (15), in connection with services rendered to us, warrants to purchase an aggregate of 28,572 shares of our common stock at an exercise price of $4.90 per share, warrants to purchase 19,600 shares of which were subsequently terminated. Upon the completion of this offering, the remaining warrants will remain exercisable for an aggregate of 8,972 shares of our common stock at an exercise price of $4.90 per share.

(17) In July 2003, we issued to two of our consultants, in connection with services rendered to us, warrants to purchase an aggregate of 429 shares of our common stock at an exercise price of $4.90 per share.

(18) In February 2004, we issued to two of our consultants, in connection with services rendered to us, warrants to purchase an aggregate of 5,715 shares of our common stock at an exercise price of $5.50 per share.

(19) From January 2001 through April 28, 2004, we granted options to purchase 2,058,282 shares of our common stock to employees, directors and consultants under our 1991 Stock Option Program, 1997 Stock Option/Stock Issuance Plan and 1998 Stock Option/Stock Issuance Plan at exercise prices ranging from $0.49 per share to $2,128.00 per share. Of the options granted, 1,634,826 remain outstanding, 44,690 shares of common stock have been purchased pursuant to exercises of stock options and 378,766 shares have been repurchased or terminated and returned to the stock option pool available under our 1991 Stock Option Program, 1997 Stock Option/Stock Issuance Plan and 1998 Stock Option/Stock Issuance Plan.

The offers, sales, and issuances of the securities described in paragraphs (1), (3) - (13) and (15) were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act because the issuance of securities to the recipients did not involve a public offering. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and warrants issued in such transactions. Each of the recipients of securities in the transactions described in paragraphs (1), (3) - (13) and (15) were accredited or sophisticated persons and had adequate access, through employment, business or other relationships, to information about us.

The offers, sales and issuances of the options and common stock described in paragraphs (2), (14) and (16) - (19) were deemed to be exempt from registration under the Securities Act in reliance on Rule 701 because the transactions were under compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of such options and common stock were our employees, directors or bona fide consultants and received the securities under our compensatory benefit plans or a contract relating to compensation. Appropriate legends were affixed to the share certificates issued in such transactions. Each of these recipients had adequate access, through employment or other relationships, to information about us.

There were no underwriters employed in connection with any of the transactions set forth in this Item 15.

Item 16. Exhibits and Financial Statement Schedules

(a) The following exhibits are filed herewith:

Exhibit Numbers	Exhibit Description
1.1**	Form of Underwriting Agreement.
3.1**	Form of Restated Certificate of Incorporation to be in effect upon the closing of this offering.
3.2**	Form of Restated Bylaws to be in effect upon the closing of this offering.
4.1**	Form of Specimen Stock Certificate.
4.2	Amended and Restated Investors' Rights Agreement by and among Digirad Corporation and the investors listed on the schedule attached thereto, dated April 23, 2002, as amended.
5.1**	Opinion of Morrison & Foerster LLP.
10.1†	License Agreement by and between Digirad Corporation and the Regents of the University of California, dated May 19, 1999, as amended.
10.2†	Software License Agreement by and between Digirad Corporation and Segami Corporation, dated June 16, 1999, as amended.
10.3†	License Agreement by and between Digirad Corporation and Cedars-Sinai Health System, dated May 22, 2001.
10.4†	License Agreement by and between Digirad Corporation and Cedars-Sinai Health System, dated April 1, 2003.
10.5†	Development and Supply Agreement by and between Digirad Corporation and QuickSil Inc., dated June 18, 1999
10.6	Loan and Security Agreement by and between Digirad Corporation and Silicon Valley Bank, dated July 31, 2001, as amended.
10.7**	Irrevocable Standby Letter of Credit executed by Silicon Valley Bank in favor of Digirad Corporation, dated November 5, 2003.
10.8**	Loan Agreement by and between Digirad Corporation and Gerald G. Loehr Trust, dated September 1, 1993, as amended.
10.9**	Loan Agreement by and between Digirad Corporation and Clinton L. Lingren, dated September 1, 1993, as amended.
10.10**	Loan Agreement by and between Digirad Corporation and Jack F. Butler, dated September 1, 1993, as amended.
10.11**	Equipment Lease Agreement by and between Orion Imaging Systems, Inc. and MarCap Corporation, dated October 1, 2000.
10.12**	Equipment Lease Agreement by and between Digirad Imaging Solutions, Inc. and MarCap Corporation, dated June 13, 2003.
10.13**	Master Equipment Lease Agreement by and between Digirad Imaging Solutions, Inc. and DVI Financial Services, Inc., dated May 24, 2001.
10.14**	Sublease Agreement by and between Digirad Corporation as sublessee and REMEC, Inc. as sublessor, dated November 3, 2003.
10.15**#	1991 Stock Option Program Stock Option Agreement.
10.16**#	1997 Stock Option/Stock Issuance Plan, as amended.
10.17**#	1998 Stock Option/Stock Issuance Plan, as amended.
10.18**#	2004 Stock Incentive Plan.
10.19**#	2004 Non-Employee Director Option Program.
10.20**#	Form of Indemnification Agreement.

10.21#	Letter Agreement by and between Digirad Corporation and David M. Sheehan, dated June 11, 2002.
10.22**	Loan and Security Agreement by and between Orion Imaging Systems, Inc., Digirad Imaging Systems, Inc. and Heller Healthcare Finance, Inc., dated January 9, 2001, as amended.
10.23**	Master Lease Agreement by and between Digirad Corporation and GE Healthcare Financial Services, dated September 26, 2000.
10.25†	Agreement for Services by and between Digirad Imaging Solutions, Inc. and MBR Associates, Inc., dated April 1, 2002.
10.26**	Form of Warrant to purchase shares of Series E Preferred Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.27**	Form of Warrant to purchase shares of Series E Preferred Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.28	Form of Warrant to purchase shares of Common Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.29**	Warrant to purchase shares of Series E Preferred Stock by and between Digirad Corporation and Silicon Valley Bank, dated July 31, 2001.
10.31**	Form of Warrant to purchase shares of Common Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.32	Form of Warrant to purchase shares of Common Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.33	Form of Warrant to purchase shares of Common Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
21.1**	Subsidiaries of Digirad Corporation.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
23.2**	Consent of Morrison & Foerster LLP (included in Exhibit 5.1).
24.1**	Power of Attorney (included on signature page).

* To be included by amendment.

** Previously filed.

# Indicates management contract or compensatory plan.

† Application has been made to the Securities and Exchange Commission to seek confidential treatment of certain provisions. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

(b) Financial statement schedules.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

	Reserves for bad debt(1)	Reserves for billing adjustments and contractual allowances(2)	Excess and Obsolete Inventory(3)
Balance at December 31, 2000	$ 39,121	$ 480,220	$ 135,000
Provision	676,476	2,564,911	56,808
Write-offs and recoveries, net	(229,678)	(2,694,633)	—
Balance at December 31, 2001	485,919	350,098	191,808
Provision	719,335	938,223	234,731
Write-offs and recoveries, net	(735,337)	(1,087,500)	(187,420)
Balance at December 31, 2002	469,917	200,821	239,119
Provision	299,273	512,919	177,360
Write-offs and recoveries, net	(394,021)	(455,322)	(80,174)
Balance at December 31, 2003	$ 375,169	$ 258,418	$ 336,305

(1) The provision was charged against other general and administrative expenses.

(2) The provision was charged against revenue.

(3) The provision was charged against cost of revenues.

No other financial statement schedules are provided because the information called for is not required or is shown either in the consolidated financial statements or the notes thereto.

Item 17. Undertakings.

The undersigned hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the DGCL, our restated certificate of incorporation or our restated bylaws, the underwriting agreement or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by one of our directors, officers, or controlling persons 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 hereunder, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

We hereby undertake that:

(1) For purposes of determining any liability under the Securities Act, 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 us pursuant to Rule 424(b)(1) or (4) or 497(h) under

the Securities Act 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, 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 this 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 Amendment No. 4 to Registration Statement (No. 333-113760) to be signed on its behalf by the undersigned, thereunto duly authorized in San Diego, California, on this 4th day of June, 2004.

DIGIRAD CORPORATION

By: /s/ DAVID M. SHEEHAN

Name: David M. Sheehan
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 4 to Registration Statement (No. 333-113760) has been signed by the following persons in the capacities and on the dates indicated:

Name	Title	Date
/s/ DAVID M. SHEEHAN David M. Sheehan	President, Chief Executive Officer and Director (Principal Executive Officer)	June 4, 2004
/s/ TODD P. CLYDE Todd P. Clyde	Chief Financial Officer (Principal Financial and Accounting Officer)	June 4, 2004
* Timothy J. Wollaeger	Chairman of the Board of Directors	June 4, 2004
* Raymond V. Dittamore	Director	June 4, 2004
* Robert M. Jaffe	Director	June 4, 2004
* R. King Nelson	Director	June 4, 2004
* Kenneth E. Olson	Director	June 4, 2004
* Douglas Reed, M.D.	Director	June 4, 2004

*By: /s/ DAVID M. SHEEHAN

David M. Sheehan
Attorney-in-fact

Index to Exhibits

Exhibit Numbers	Exhibit Description
1.1**	Form of Underwriting Agreement.
3.1**	Form of Restated Certificate of Incorporation to be in effect upon the closing of this offering.
3.2**	Form of Restated Bylaws to be in effect upon the closing of this offering.
4.1**	Form of Specimen Stock Certificate.
4.2	Amended and Restated Investors' Rights Agreement by and among Digirad Corporation and the investors listed on the schedule attached thereto, dated April 23, 2002, as amended.
5.1**	Opinion of Morrison & Foerster LLP.
10.1†	License Agreement by and between Digirad Corporation and the Regents of the University of California, dated May 19, 1999, as amended.
10.2†	Software License Agreement by and between Digirad Corporation and Segami Corporation, dated June 16, 1999, as amended.
10.3†	License Agreement by and between Digirad Corporation and Cedars-Sinai Health System, dated May 22, 2001.
10.4†	License Agreement by and between Digirad Corporation and Cedars-Sinai Health System, dated April 1, 2003.
10.5†	Development and Supply Agreement by and between Digirad Corporation and QuickSil Inc., dated June 18, 1999
10.6	Loan and Security Agreement by and between Digirad Corporation and Silicon Valley Bank, dated July 31, 2001, as amended.
10.7**	Irrevocable Standby Letter of Credit executed by Silicon Valley Bank in favor of Digirad Corporation, dated November 5, 2003.
10.8**	Loan Agreement by and between Digirad Corporation and Gerald G. Loehr Trust, dated September 1, 1993, as amended.
10.9**	Loan Agreement by and between Digirad Corporation and Clinton L. Lingren, dated September 1, 1993, as amended.
10.10**	Loan Agreement by and between Digirad Corporation and Jack F. Butler, dated September 1, 1993, as amended.
10.11**	Equipment Lease Agreement by and between Orion Imaging Systems, Inc. and MarCap Corporation, dated October 1, 2000.
10.12**	Equipment Lease Agreement by and between Digirad Imaging Solutions, Inc. and MarCap Corporation, dated June 13, 2003.
10.13**	Master Equipment Lease Agreement by and between Digirad Imaging Solutions, Inc. and DVI Financial Services, Inc., dated May 24, 2001.
10.14**	Sublease Agreement by and between Digirad Corporation as sublessee and REMEC, Inc. as sublessor, dated November 3, 2003.
10.15**#	1991 Stock Option Program Stock Option Agreement.
10.16**#	1997 Stock Option/Stock Issuance Plan, as amended.
10.17**#	1998 Stock Option/Stock Issuance Plan, as amended.
10.18**#	2004 Stock Incentive Plan.
10.19**#	2004 Non-Employee Director Option Program.
10.20**#	Form of Indemnification Agreement.
10.21#	Letter Agreement by and between Digirad Corporation and David M. Sheehan, dated June 11, 2002.
10.22**	Loan and Security Agreement by and between Orion Imaging Systems, Inc., Digirad Imaging Systems, Inc. and Heller Healthcare Finance, Inc., dated January 9, 2001, as amended.

10.23**	Master Lease Agreement by and between Digirad Corporation and GE Healthcare Financial Services, dated September 26, 2000.
10.25†	Agreement for Services by and between Digirad Imaging Solutions, Inc. and MBR Associates, Inc., dated April 1, 2002.
10.26**	Form of Warrant to purchase shares of Series E Preferred Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.27**	Form of Warrant to purchase shares of Series E Preferred Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.28	Form of Warrant to purchase shares of Common Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.29**	Warrant to purchase shares of Series E Preferred Stock by and between Digirad Corporation and Silicon Valley Bank, dated July 31, 2001.
10.31**	Form of Warrant to purchase shares of Common Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.32	Form of Warrant to purchase shares of Common Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
10.33	Form of Warrant to purchase shares of Common Stock by and among Digirad Corporation and the investors listed on the schedule attached thereto.
21.1**	Subsidiaries of Digirad Corporation.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
23.2**	Consent of Morrison & Foerster LLP (included in Exhibit 5.1).
24.1**	Power of Attorney (included on signature page).

* To be included by amendment.

** Previously filed.

# Indicates management contract or compensatory plan.

† Application has been made to the Securities and Exchange Commission to seek confidential treatment of certain provisions. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

QuickLinks

EXHIBIT 4.2

DIGIRAD CORPORATION

AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

April 23, 2002

AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

This AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT (this "Agreement") is made as of the 23rd day of April, 2002, by and between Digirad Corporation, a Delaware corporation (the "Company"), holders of a majority of the Preferred Stock of the Company identified on Schedule B attached hereto under the heading "Existing Investors" and Silicon Valley Bank (collectively, the "Existing Investors") and each of the purchasers of the Series H Preferred Stock of the Company identified on Schedule C attached hereto under the heading "New Investors" (collectively, the "New Investors"). The Existing Investors and the New Investors are referred to herein, each individually as, an "Investor" and collectively as, the "Investors."

RECITALS

A. The Company has previously sold and issued certain shares of its Common Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and/or Series F Preferred Stock to the Existing Investors pursuant to which the Existing Investors have become parties to that certain Investors' Rights Agreement dated August 23, 2001, as amended from time to time (the "Investors' Rights Agreement");

B. The Company desires to sell and issue shares of its Series H Preferred Stock to the New Investors pursuant to that certain Series G Preferred Stock and Series H Preferred Stock Purchase and Exchange Agreement of even date herewith (the "Purchase Agreement");

C. The New Investors purchasing shares of Series H Preferred Stock pursuant to the Purchase Agreement may be entitled, subject to certain limitations set forth therein, to exchange a certain number of shares of the Company's Preferred Stock held by them for shares of Series G Preferred Stock to be authorized and issued in connection therewith; and

D. As an inducement to the New Investors to purchase shares of its Series H Preferred Stock, the Company 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 herein.

E. The provisions of Section 1.2 of the Investors' Rights Agreement have been restated in their entirety in Section 1.2 of this Agreement, and the parties identified on Schedule A attached hereto under the heading "Founders" shall become party to Section 1.2 of this Agreement for all purposes.

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 Existing 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). Existing 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 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 (collectively, the "Existing 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 Existing 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 Existing 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, oroptions 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 Parallel Right of First Offer. Subject to the terms and conditions specified in this Section 1.3, and provided that nothing in this Section 1.3 shall affect the provisions of Section 1.2 of this Agreement, the Company hereby grants to Investors holding shares of Series G Preferred Stock and Series H Preferred Stock and their respective transferees (each a "New Offeree"), a right of first offer with respect to future sales by the Company of its Shares (as previously 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, the Company shall, simultaneously with any right of first offer which the Company may be obliged to make pursuant to Section 1.2 of this Agreement, make an offering of such Shares to each New Offeree in accordance with the following provisions:

(a) The Company shall deliver Notice (as previously defined) to the New 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 New 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 shares of Series G Preferred Stock and Series H Preferred Stock then held, by such New Offeree bears to the total number of shares of outstanding Common Stock and Common Stock issuable upon conversion of the shares of Series G Preferred Stock and Series H Preferred Stock then outstanding. The Company shall promptly in writing, inform each New Offeree which purchases all the shares available to it (a "Fully Exercising New Offeree") of any other New Offeree's failure to do likewise. During the 10-day period commencing after receipt of such information, each Fully Exercising New Offeree shall be entitled to obtain that portion of the shares subject to such right of first refusal and not subscribed for by the New Offerees which is equal to the proportion that the number of shares of Common Stock issued and held, or issuable upon conversion of the shares of Series G Preferred Stock and Series H Preferred Stock then held, by such Fully Exercising New Offeree bears to the total number of shares of Common Stock issued and held, or issuable upon conversion of the Series G Preferred Stock and Series H Preferred Stock then held, by all Fully Exercising New 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 1.3(b) hereof, the Company may, during the 60-day period following the expiration of the period provided in subsection 1.3(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 New Offerees in accordance herewith.

(d) The number of such Shares referred to in the Notice may be reduced by an amount equal to the number of Shares subscribed pursuant to the provisions of Section 1.2 of this Agreement, in which case the number of Shares which any New Offeree may elect to purchase or obtain pursuant to this Section 1.3 shall be amended such that each New 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 shares of Series G Preferred Stock and Series H Preferred Stock then held, by such New Offeree bears to (I) the total number of shares of outstanding Common Stock and Common Stock issuable upon conversion of the shares of Series G Preferred Stock and Series H Preferred Stock then outstanding less (II) such number of Shares by which the number of Shares referred to in the Notice shall have been reduced pursuant to this subsection 1.3(d).

(e) The right of first offer granted in this Section 1.3 shall not be applicable (i) to the issuance or sale of shares of Common Stock, or Options (as previously defined) 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, which results in gross proceeds of at least $25,000,000 at a price per share of at least $1.36 (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, (vi) to the issuance of securities in connection with credit agreements with equipment lessors or commercial lenders, and (vii) to the issuance or sale of shares of Common Stock pursuant to Section 1.2 of this Agreement.

(f) This Section 1.3 shall not apply to, and the rights granted hereunder shall be deemed not to have arisen for any purposes in the event of, any offer by the Company of shares in connection with any Acquisition (as defined in the Voting Agreement of even date herewith made between the Company and the Stockholders and Investors named therein) which shall have been approved by at least half in number of the Major Investors (as defined in the Purchase Agreement).

(g) This Section 1.3 shall not apply to, and the rights granted hereunder shall not be deemed to have arisen for any purposes in the event of, the issuance by the Company of any shares of Series G Preferred Stock or Series H Preferred Stock pursuant to the Second Closing or, if applicable, the Third Closing pursuant to the Purchase Agreement (with each term as defined in the Purchase Agreement).

(h) Any term of this Section 1.3 may be amended and the observance of any term of this Section 1.3 may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of (i) the Company and (ii) Investors holding of a majority of the Common Stock issued or issuable upon conversion of the Series G Preferred Stock and Series H 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 1.3, each future holder of all such securities, and the Company.

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, Series F Preferred Stock, Series G Preferred Stock and Series H 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, Series G Preferred Stock, Series H 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, 2004 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 $25,000,000), 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 as follows: (i) first, among Holders of Common Stock issuable or issued upon conversion of the Series H Preferred Stock or Common Stock 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 H Preferred Stock, and, to the extent that such number of shares of Registrable Securities shall not have been exhausted thereby, (ii) second, among Holders of Common Stock issuable or issued upon conversion of the Series G Preferred Stock or Common Stock 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 G Preferred Stock, and to the extent that such number of shares of Registrable Securities shall not have been exhausted thereby, (iii) among all other Holders thereof, in proportion (as nearly as practicable) to the number of Registrable Securities of the Company owned by each such other 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.

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 among the selling stockholders as follows: (i) first, among Holders of Common Stock issuable or issued upon conversion of the Series H Preferred Stock or Common Stock 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 H Preferred Stock, and, to the extent that such number of shares of the securities so included to be apportioned shall not have been exhausted thereby, (ii) second, among Holders of Common Stock issuable or issued upon conversion of the Series G Preferred Stock or Common Stock 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 G Preferred Stock, and, to the extent that the securities so included to be apportioned shall not have been exhausted thereby, (iii) according to the total number of securities entitled to be included therein owned by each other selling stockholder or in such other proportions as shall mutually be agreed to by such other 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 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 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 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 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 Investor (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 Investor.

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 $25,000,000, at a public offering price of not less than $1.36 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 2.16.

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 H Preferred Stock (adjusted for stock splits, reverse stock splits and similar changes in capitalization 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 ten percent (10%) of the outstanding shares of Series H Preferred Stock and to each Major Investor (as defined in the Purchase Agreement), 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 ten percent (10%) of the outstanding shares of Series H Preferred Stock and to each Major Investor, 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 seventeen and a half percent (17-1/2%) of the outstanding shares of Series H Preferred Stock and to each Major Investor, 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 seventeen and a half percent (17-1/2%) of the outstanding shares of Series H Preferred Stock and to each Major Investor, 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 seventeen and a half percent (17-1/2%) of the outstanding shares of Series H Preferred Stock and to each Major Investor, 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 holding shares of Series H Preferred Stock, 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 Required Approvals. In addition to any approvals required by law, so long as shares of Series H Preferred Stock are outstanding, neither the Company nor any of its Subsidiaries shall, without first obtaining the approval (by vote or written consent, as provided by law) of both (a) at least half in number of the Major Investors and (b) the holders of a majority of the then outstanding voting power of the Series H Preferred Stock, voting as a single class:

(a) amend, restate, alter, modify or repeal (directly or indirectly by merger or otherwise) the Company's Certificate of Incorporation or Bylaws (including, without limitation, (I) amending, restating, modifying or repealing (directly or indirectly by merger or otherwise) any certificate of designation or preferences (as in effect from time to time) relating to the Preferred Stock and (II) authorizing any new class or series of stock);

(b) reclassify Common Stock or Preferred Stock;

(c) declare or pay any dividend (whether in cash or otherwise) on the Common Stock or the Preferred Stock;

(d) except as otherwise provided in the Amended and Restated Certificate of Incorporation of the Company redeem, purchase or otherwise acquire or make any distribution with respect to any outstanding securities of the Company or its Subsidiaries (including, without limitation, warrants, options and other rights to acquire any of its capital stock or other equity securities directly or indirectly) or redeem, repurchase or make any distribution with respect to any stock appreciation rights, phantom stock plans or similar rights or plans relating to the Company or its Subsidiaries; provided, however, that the foregoing shall not impose any condition on the Company repurchasing at cost shares of its Common Stock pursuant to the Company's stock option/stock issuance plans;

(e) (I) sell, convey, or otherwise dispose of all or substantially all of the assets of the Company or any Subsidiary (as defined below) of the Company (provided, however, that this restriction shall not apply to any mortgage, deed of trust, pledge or other encumbrance or hypothecation of the Company's or any Subsidiary's assets for the purpose of securing indebtedness of the Company or such Subsidiary which existed prior to the Series H Initial Purchase Date (as defined in the Amended and Restated Certificate of Incorporation of the Company)) or grant any exclusive license to the assets of the Company or any Subsidiary of the Company; (II) effect any merger, consolidation, acquisition or similar transaction of the Company with one or more other corporations or series of such transactions in which the stockholders of the Company prior to such transaction, or series of transactions, would hold stock representing less than a majority of the voting power of the outstanding stock of the

surviving corporation immediately after such transaction, or series of transactions; or (III) authorize, effect or consummate any Liquidation Event (including without limitation any Deemed Liquidation Event, each as defined in the Amended and Restated Certificate of Incorporation of the Company) or Products Business Sale (as defined in the Amended and Restated Certificate of Incorporation of the Company), regardless of whether such Liquidation Event or Products Business Sale would constitute a transaction described in clauses (I) or (II) above;

(f) create or suffer to exist any Subsidiary of the Company that is not wholly-owned by the Company; or effect the liquidation, bankruptcy or dissolution of any Subsidiary of the Company;

(g) create, incur, guarantee, assume or be directly or indirectly liable with respect to any indebtedness (other than indebtedness which existed prior to the Series H Initial Purchase Date), or permit any Subsidiary to do so, except with respect to trade debts incurred in the ordinary course of the business of the Company or its applicable Subsidiary, as the case may be; provided, however, that the foregoing shall not impose any condition on the Company or any Subsidiary (A) creating or incurring indebtedness under credit facilities existing as of the Series H Initial Purchase Date up to amounts authorized by any of such facilities prior the Series H Initial Purchase Date; or (B) creating, incurring or authorizing indebtedness under master equipment lease agreements, provided that (I) in the case of the Company such new indebtedness shall be limited to a maximum of Five Hundred Thousand Dollars ($500,000) per year in each of the years 2002, 2003 and 2004, and (II) in the case of all of the Subsidiaries of the Company, considered together, such new indebtedness shall be limited to a maximum of One Million Five Hundred Thousand Dollars ($1,500,000) per year in each of the years 2003 and 2004, and provided further that none of the indebtedness referred to in Subsection 3.3(g)(B) shall be subject to any negative covenants with respect to, or prohibitions on, the Company's ability to effect any distribution or redemption of shares of its capital stock; or

(h) agree or otherwise commit to take any actions set forth in the foregoing subparagraphs (i) through (vii).

3.4 Request for Redemption. On or at any time after July 31, 2004, upon the receipt by the Company from at least half in number of the Major Investors (as defined below) of a written request for redemption hereunder of their shares of Series H Preferred Stock, the Company shall, subject to and in accordance with the provisions of Article IV, Division B, Section 4 of the Amended and Restated Certificate of Incorporation of the Company, redeem all of the outstanding shares of Preferred Stock.

3.5 Automatic Conversion. The Company shall take such actions and do such things as may be necessary to cause each outstanding share of Preferred Stock to be automatically converted (in accordance with the provisions of Article IV, Division B, Section 5 of the Amended and Restated Certificate of Incorporation of the Company) into shares of Common Stock immediately upon the approval of both (i) at least half in number of the Major Investors and (ii) the holders of a majority of the then outstanding voting power of the Series H Preferred Stock, voting as a single 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.

3.6 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.

3.7 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.

3.8 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 to Restricted Parties 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 Board of Directors or Compensation Committee of the Board of Directors.

3.9 Compliance with Law.

(a) 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.

(b) 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.

(c) ***Definitions.*** For the purposes of this Section 3.9:

(i) "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.

(ii) "Governmental Authority" means any branch, component, agency or instrumentality of federal, state or local government.

(iii) "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.

3.10 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 shares of the Company's Series G Preferred Stock or Series H Preferred Stock (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, (iv) a transfer to any other individual, corporation, trust, partnership, joint venture, unincorporated organization, limited liability company, government agency or any agency or political subdivision thereof, or other entity (each, a "Person") that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified Investor (including without limitation any other Person over which such Investor has management rights) or (v) in connection with any Acquisition (as defined in the Voting Agreement of even date herewith made between the Company and the Stockholders and Investors named therein) which shall have been approved by at least half in number of the Major Investors (as defined in the Purchase Agreement)), 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 Noticed Shares to be sold, the name of the proposed purchaser (the "Proposed 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 Common Stock Equivalents (as hereafter defined) (such stockholders being hereinafter referred to as the "Optionee Investors"). Within thirty (30) days thereafter, any such Optionee Investor desiring to acquire any part or all of the Noticed Shares (the "Offering Investor") 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 G Preferred Stock or Series H 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 Noticed Shares as the number of shares of Common Stock issued and issuable upon conversion of Series G Preferred Stock and Series H Preferred Stock held by such Offering Investor bears to the total number of shares of Common Stock issued and issuable upon conversion of shares of Series G Preferred Stock and Series H Preferred Stock held by all the Offering Investors.

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 a majority of the Major Investors (as defined in the Purchase Agreement). 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.

Notwithstanding the foregoing, the parties recognize that pursuant to the Purchase Agreement, the Company may issue additional shares of Series G Preferred Stock and Series H Preferred Stock to additional individuals or entities (such parties, "Additional Investors") pursuant to the Second Closing or the Third Closing (each as defined in the Purchase Agreement). Each of the Additional Investors shall be entitled to become party to this Agreement, and the addition of such parties to this Agreement and any required amendment to Schedule C of this Agreement, shall not be considered an amendment requiring the consent of the parties to this Agreement. Therefore, upon execution of a counterpart signature page to this Agreement by any of such Additional Investors, such Additional Investors shall become parties to this Agreement to the same extent as if they had executed this Agreement as of the date hereof and shall be included in the definition of New Investors under this Agreement for all purposes. Schedule C to this Agreement shall be automatically amended as appropriate to reflect the addition of such individuals and/or entities as New Investors under this Agreement.

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 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.

[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/ John Dahldorf*
John Dahldorf
Chief Financial Officer

FOUNDERS:

JACK F. BUTLER

Jack F. Butler

Address: 16650 Las Cuestas
Rancho Santa Fe, CA 92067

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INVESTORS' RIGHTS AGREEMENT]

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

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INVESTORS:

SORRENTO GROWTH PARTNERS I, L.P.

By: Sorrento Equity Growth Partners I, L.P.,
Its General Partner

By: Sorrento Growth, Inc.,
Its General Partner

By: */s/ Robert M. Jaffe*
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

INVESTORS:

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. Jaffe*
Robert M. Jaffe, 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. Jaffe, President

Address: 4370 La Jolla Village Drive, Suite 1040
San Diego, CA 92122

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INVESTORS:

VECTOR LATER-STAGE EQUITY FUND, L.P.

By: Vector Fund Management II, L.L.C.
Its General Partner

By: */s/ Douglas Reed, M.D.*
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, M.D.*
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, M.D.*
Douglas Reed, M.D.
Managing Director

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

INVESTORS:

PALAVACINNI PARTNERS, LP

By: */s/ Douglas Reed, M.D.*
Douglas Reed, M.D.
Managing Member

Address: 1751 Lake Cook Road, Suite 350
Deerfield, IL 60015

D. THEODORE BERGHORST

By: */s/ D. Theodore Berghorst*
D. Theodore Berghorst

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

PETER F. DRAKE

By: */s/ Peter F. Drake*
Peter F. Drake

Address: 255 Mayflower Road
Lake Forest, IL 60045

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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: 4 World Financial Center, 22nd Floor
New York, NY 10080
Attn: Jean Kim

All Notices: Merrill Lynch Ventures L.P. 2001
95 Greene Street
Jersey City, NJ 07302-3815
Attn: Robert F. Tully

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INVESTORS:

GE CAPITAL EQUITY INVESTMENTS, INC.

By: */s/ David Gibbs*
David Gibbs
Senior Vice President

Address: 120 Long Ridge Road
Stamford, CT 06927

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INVESTORS:

KENNETH E. OLSON TRUST DATED 3/16/89

By: */s/ Kenneth E. Olson*
Kenneth E. Olson
Trustee

Address: 404 Torrey Point Road
Del Mar, CA 92014

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INVESTORS:

TAH & H INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its: General Partner

By: */s/ Michael A. Rosen*
Michael A. Rosen
Investment Committee Member

KKH & C INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its: General Partner

By: */s/ Michael A. Rosen*
Michael A. Rosen
Investment Committee Member

WAH & M INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its: General Partner

By: */s/ Michael A. Rosen*
Michael A. Rosen
Investment Committee Member

Address: 700 S.R. 46E

Batesville, IN 47006

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INVESTORS:

MLH & T INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its: General Partner

By: */s/ Michael A. Rosen*
Michael A. Rosen
Investment Committee Member

RDH & S INVESTORS, LP

By: Investment Committee
Brickyard Holdings. Inc.
Its: General Partner

By: */s/ Michael A. Rosen*
Michael A. Rosen
Investment Committee Member

Address: 700 S.R. 46E
Batesville, IN 47006

W. AUGUST HILLENBRAND

/s/ W. August Hillenbrand
W. August Hillenbrand

Address: 700 S.R. 46E
Batesville, IN 47006

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INVESTORS:

FURMAN SELZ SBIC, L.P.

By: */s/ James L. Luikart*

Name: James L. Luikart

Its: EVP of G.P.

Address: Jeffries & Co.
520 Madison Avenue, 8th Floor
New York, NY 10022

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ACADIA INVESTORS, LLC

By: Rockefeller & Co., Inc., as Attorney-in-Fact

By: */s/ Tamar Manuelian*

Name: Tamar Manuelian

Its: Authorized Signatory

Address: Rockefeller & Co., Inc.
Room 5400, 30 Rockefeller Plaza
New York, NY 10112

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AKINYELE ALUKO

/s/ Akinyele Aluko
Akinyele Aluko

Address: _____
_____
_____

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ANACAPA INVESTORS, LLC

By: */s/ Robert Raede*

Name: Robert Raede

Its: Manager

Address: 112 El Paseo
Santa Barbara, CA
93101

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ARTHUR E. NICHOLAS

/s/ Arthur E. Nicholas
Arthur E. Nicholas

Address: P.O. Box 2169
Del Mar, CA 92014

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ARTHUR & SOPHIE BRODY REVOCABLE
TRUST DATED 3/16/89

By: */s/ Arthur Brody*

Name: Arthur Brody

Its: Trustee

Address: 990 Highland Dr., Ste 100
Solana Beach, CA 92075

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ARTICLE THIRD C. TRUST U/W WILLIAM L. CARY

SPEARS GRISANTI & BROWN LLC

By: */s/ Dorothy A. Buthom*

Name: _____

Its: _____

Address: c/o Spears Grisanti & Brown LLC
45 Rockefeller Plaza, Suite 1709
New York, NY 10111
Attn: Dorothy Buthom

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INVESTORS' RIGHTS AGREEMENT]

AUREUS DIGIRAD, LLC

By: */s/ Robert Averick*

Name: Robert Averick

Its: Member

Address: Aureus Digirad, LLC
c/o Richard L. Scott Investments, LLC
100 First Stamford Place
Stamford, CT 06902

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CHRISTIE C. SALOMON

SPEARS GRISANTI & BROWN LLC

/s/ Dorothy A. Buthom

Address: c/o Spears Grisanti & Brown LLC
45 Rockefeller Plaza, Suite 1709
New York, NY 10111
Attn: Dorothy Buthom

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By: */s/ Christina Salomon-Tripp*

Name: Christina Salomon-Tripp

Its: _____

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

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By: */s/*

Name: The Christina Salomon Trust

Its: Trustee

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

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CLEMENT C. MOORE

SPEARS GRISANTI & BROWN LLC

/s/ Dorothy A. Buthom
Clement C. Moore

Address: c/o Spears Grisanti & Brown LLC
45 Rockefeller Plaza, Suite 1709
New York, NY 10111
Attn: Dorothy Buthom

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DAVID ROCKEFELLER

By: Rockefeller & Co., Inc., as Attorney-in-Fact

By: */s/ Tamar Manuelian*
David Rockefeller
Tamar Manuelian, Authorized Signatory

Address: Rockefeller & Co., Inc.
Room 5400, 30 Rockefeller Plaza
New York, NY 10112

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By: /s/

Name: The David Salomon Trust

Its: Trustee

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

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DERBES FAMILY TRUST U/D/T DATED
4/25/86

By: */s/ Daniel W. Derbes*
Name: Daniel W. Derbes
Its: Trustee

Address: P.O. Box 8184
Rancho Santa Fe
CA 92067

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ELLIOT FEUERSTEIN TRUST DATED 5/14/82

By: */s/ Elliot Feuerstein Trustee*
Name: Elliot Feuerstein
Its: Trustee

Address: 8294 Mira Mesa Blvd.
San Diego, CA 92126

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By: /s/

Name: The Evanne S. Gargiulo Trust

Its: Trustee

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

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By: */s/ Evanne S. Gargiulo*

Name: Evanne S. Gargiulo

Its: _____

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

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EVVIE GOLDING

/s/ Evvie Golding
Evvie Golding

Address: 572 Farmington Road
Montgomery, AL 36109-4610

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FISK VENTURES LLC

By: */s/ Stephen Rose*

Name: Stephen Rose

Its: Vice President

Address: 4041 N. Main St.
Racine, WI
53402

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FORREST M. AND PATRICIA K. SHUMWAY
MARITAL TRUST DTD 4/26/94

By: */s/ Forrest M. Shumway Trustee*
Name: _____
Its: _____

Address: 9171 Towne Centre Dr.
San Diego, CA 92122

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GEORGE WEISSMAN

SPEARS GRISANTI & BROWN LLC

/s/ Dorothy A. Buthom
George Weissman

Address: c/o Spears Grisanti & Brown LLC
45 Rockefeller Plaza, Suite 1709
New York, NY 10111
Attn: Dorothy Buthom

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UNITED STATES TRUST COMPANY

GERALD G. LOEHR TRUST

By: */s/ Steven Scott Kirkpatrick*
Name: Steven Scott Kirkpatrick
Its: Senior Vice President

Address: 114 West 47th Street
New York, NY 10036

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HARVEY FAMILY LLC

By: */s/ John Harvey*

Name: John Harvey

Its: Manager

Address: 2305 NW Grand
Oklahoma City, OK
73116

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HEALTH CARE INDEMNITY, INC.

By: */s/ James T. Glasscock*

Name: James T. Glasscock

Its: V.P., Investments

Address: One Park Plaza
Nashville, TN 37069

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INGLEWOOD VENTURES, L.P.

By: */s/ Daniel C. Wood*

Name: Daniel C. Wood

Its: Member

Address: 12526 High Bluff Dr. #300
San Diego, CA 92130

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JACK F. BUTLER

/s/ Jack F. Butler
Jack F. Butler

Address: 1850 Viking Way
La Jolla, CA 92037

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JAFCO CO., LTD

By: */s/ Tomio Kezuka*

Name: Tomio Kezuka

Its: Executive Vice President

Address: Tekko Bldg., 1-8-2, Marunouchi,
Chiyoda-ku, Tokyo 100-0005,
JAPAN

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

JAFCO G-6 (A) INVESTMENT ENTERPRISE
PARTNERSHIP

By: JAFCO Co. Ltd.
Its Executive Partner

By: */s/ Tomio Kezuka*
Tomio Kezuka
Executive Vice President

Address: Tekko Bldg., 1-8-2, Marunouchi,
Chiyoda-ku, Tokyo 100-0005,
JAPAN

[SIGNATURE PAGE TO AMENDED AND RESTATED
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JAFCO G-6 (B) INVESTMENT ENTERPRISE
PARTNERSHIP

By: JAFCO Co. Ltd.
Its Executive Partner

By: */s/ Tomio Kezuka*
Tomio Kezuka
Executive Vice President

Address: Tekko Bldg., 1-8-2, Marunouchi,
Chiyoda-ku, Tokyo 100-0005,
JAPAN

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JAFCO G-7 (A) INVESTMENT ENTERPRISE
PARTNERSHIP

By: JAFCO Co. Ltd.
Its Executive Partner

By: */s/ Tomio Kezuka*
Tomio Kezuka
Executive Vice President

Address: Tekko Bldg., 1-8-2, Marunouchi,
Chiyoda-ku, Tokyo 100-0005,
JAPAN

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JAFCO G-7 (B) INVESTMENT ENTERPRISE
PARTNERSHIP

By: JAFCO Co. Ltd.
Its Executive Partner

By: */s/ Tomio Kezuka*
Tomio Kezuka
Executive Vice President

Address: Tekko Bldg., 1-8-2, Marunouchi,
Chiyoda-ku, Tokyo 100-0005,
JAPAN

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JAFCO JS3 INVESTMENT ENTERPRISE
PARTNERSHIP

By: JAFCO Co. Ltd.
Its Executive Partner

By: */s/ Tomio Kezuka*
Tomio Kezuka
Executive Vice President

Address: Tekko Bldg., 1-8-2, Marunouchi,
Chiyoda-ku, Tokyo 100-0005,
JAPAN

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JAFCO R-3 INVESTMENT ENTERPRISE
PARTNERSHIP

By: JAFCO Co. Ltd.
Its Executive Partner

By: */s/ Tomio Kezuka*
Tomio Kezuka
Executive Vice President

Address: Tekko Bldg., 1-8-2, Marunouchi,
Chiyoda-ku, Tokyo 100-0005,
JAPAN

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INVESTORS' RIGHTS AGREEMENT]

By: */s/ Jennifer Salomon*

Name: Jennifer Salomon

Its: _____

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

By: /s/

Name: The Jennifer Salomon Trust

Its: Trustee

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

[SIGNATURE PAGE TO AMENDED AND RESTATED
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JEROME WILLIAMS, Jr.

/s/ Jerome Williams, Jr.

Jerome Williams, Jr.

Address: _____

_____

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INVESTORS' RIGHTS AGREEMENT]

JOHNSON & JOHNSON DEVELOPMENT
CORPORATION

By: */s/ John Onopchenko*

Name: John Onopchenko

Its: Vice President

Address: 31 Technology Drive
Irvine, CA 92618

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INVESTORS:

KENNETH E. OLSON TRUST DATED 3/16/89

By: */s/ Kenneth E. Olson*
Kenneth E. Olson
Trustee

Address: 404 Torrey Point Road
Del Mar, CA 92014

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KNOWLES FAMILY TRUST

By: */s/ Raymond V. Knowles*

Name: Raymond V. Knowles

Its: Trustee

Address: P.O. Box 2633
La Jolla, CA 92138

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NATHAN P.. DUNN

/s/ Nathan P. Dunn
Nathan P. Dunn

Address: 2 Bryant St. #240

San Francisco, CA 94105

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LAURA E. DUNN, TRUSTEE OF THE LAURA E. DUNN
REVOCABLE TRUST U/D/T dated 9/28/01

By: */s/ Laura E. Dunn*
Name: Laura E. Dunn, TTEE
Its:

Address: 13095 Skyline Blvd.
Oakland, CA
94619

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INVESTORS' RIGHTS AGREEMENT]

LINDA J. LOEHR, MARITAL TRUST, LOEHR FAMILY TRUST
DATED 2/3/89

By: */s/ Linda J. Loehr Trustee*
Name: Linda J. Loehr, Marital Trust
Its: Loehr Family Trust dated 2-3-89

Address: P.O. Box 675207
RSF, CA 92067

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INVESTORS' RIGHTS AGREEMENT]

LINDA J. LOEHR, SURVIVORS TRUST, LOEHR FAMILY TRUST
DATED 2/3/89

By: */s/ Linda J. Loehr Trustee*
Name: Linda J. Loehr, Survivors Trust
Its: Loehr Family Trust dated 2-3-89

Address: P.O. Box 675207
RSF, CA 92067

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INVESTORS' RIGHTS AGREEMENT]

LINDA K. OLSON

/s/ Linda K. Olson
Linda K. Olson

Address:

LOUISE GRUNWALD

SPEARS GRISANTI & BROWN LLC

/s/ Dorothy A. Buthom
Louise Grunwald

Address: c/o Spears Grisanti & Brown LLC
45 Rockefeller Plaza, Suite 1709
New York, NY 10111
Attn: Dorothy Buthom

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MALIN BURNHAM

/s/ Malin Burnham
Malin Burnham

Address: 610 W. Ash St.
San Diego, CA
92101

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MARGARETTA F. ROCKEFELLER
By: Rockefeller & Co., Inc., as Investment Manager

By: */s/ Jane Lilienthal*
Margaretta F. Rockefeller

Address: Jane Lilienthal, Authorized Signatory
Rockefeller & Co., Inc.
Room 5400, 30 Rockefeller Plaza
New York, NY 10112

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INVESTORS' RIGHTS AGREEMENT]

MILDRED WEISSMAN

SPEARS GRISANTI & BROWN LLC

/s/ Dorothy A. Buthom
Mildred Weissman

Address: c/o Spears Grisanti & Brown LLC
45 Rockefeller Plaza, Suite 1709
New York, NY 10111
Attn: Dorothy Buthom

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MCC INVESTMENTS, LLC

By: */s/ Mark S. Kremer*

Name: Mark S. Kremer, M.D.

Its: Treasurer

Address: 1718 E. 4th St.
Suite 501
Charlotte NC 28204

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INVESTORS' RIGHTS AGREEMENT]

MVC GLOBAL JAPAN FUND I

By: */s/ Kaoru Hatakeyama*

Name: General Partner Kaoru Hatakeyama
President & C.E.O.
MVC Corporation

Address: 5th Floor, Funato Bldg.
1-2-3 Kudan-Kita Chiyoda-ku,
Tokyo 102-0073 Japan

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OCEAN AVENUE INVESTORS, LLC – THE
SPECIAL SECURITIES FUND

By: */s/ Michael H. Browne*

Name: Michael H. Browne

Its: Managing Member

Address: 100 Wilshire Boulevard
Suite 1850
Santa Monica, CA 90401

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PAGE TRUST DATED 3/3/89

By: */s/ Thomas A. Page*

Name: Thomas A. Page

Its: Trustee

Address: 1904 Hidden Crest Dr.
El Cajon, Cal 92019

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INVESTORS' RIGHTS AGREEMENT]

PETER T. DUNN

/s/ Peter T. Dunn
Peter T. Dunn

Address: 2 Bryant St. #240
SF, CA 94105

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

By: */s/*

Name: RE Salomon Family LLC

Its: Managing Member

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

By: */s/ Ralph Salomon*

Name: Ralph Salomon

Its: _____

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

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REES JONES

/s/ Rees Jones
Rees Jones

Address: 55 South Park St.
Montclair, NJ 07042

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

By: */s/ Robert Salomon*

Name: Robert Salomon

Its: _____

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

By: */s/*

Name: Salbros, LLC

Its: Managing Member

Address: c/o TAG Associates, LLC
75 Rockefeller Plaza, 9th Floor
New York, NY 10019
Attn: Angela Socha

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INVESTORS' RIGHTS AGREEMENT]

SBSF BIOTECHNOLOGY FUND, L.P.

By: */s/ Lisa B. Tuckerman*

Name: Lisa B. Tuckerman

Its: Member of the General Partner

Address: 101 East Main St.
Suite G
Bozeman, MT 59715

NOTE: INVESTING ON BEHALF OF SBSF BIOTECHNOLOGY FUND, L.P. WILL BE RIVERBANK PARTNERS, LLC THE GENERAL PARTNER OF THE FUND

LBT

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SBSF BIOTECHNOLOGY PARTNERS, L.P.

By: */s/ Lisa B. Tuckerman*

Name: Lisa B. Tuckerman

Its: Member of the General Partner

Address: 101 East Main St.
Suite G
Bozeman, MT 59715

NOTE: INVESTING ON BEHALF OF SBSF BIOTECHNOLOGY FUND, L.P. WILL BE RIVERBANK PARTNERS, LLC THE GENERAL PARTNER OF THE FUND

LBT

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STANLEY & MAXINE FIRESTONE TRUST DATED 12/02/88

By: */s/ Stanley Firestone*
Name: Stanley Firestone
Its: Trustee

Address: 259 South Beverly Drive
Beverly Hills, CA 90212

[SIGNATURE PAGE TO AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT]

STEPHEN A. AND LOU ANN MCADAMS

/s/ Stephen A. McAdams
Stephen A. McAdams

/s/ Lou Ann McAdams
Lou Ann McAdams

Address: 4901 Old Course Dr.
Charlotte, NC 28277

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STEPHEN A. MCADAMS ROLLOVER IRA

By: */s/ Stephen McAdams*
Name: Stephen McAdams
Its:

Address: 4901 Old Course Dr.
Charlotte, NC 28277

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SUTRO GROUP

By: */s/ Thomas E. Bertelsen*

Name: Thomas E. Bertelsen, Jr.

Its: Advisor

Address: RBC Dain Rauscher
201 California St.
San Francisco, CA 94111

[SIGNATURE PAGE TO AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT]

TRUST UA 12/7/67 F/B/O KATHERINE FC CARY

SPEARS GRISANTI & BROWN LLC

By: */s/ Dorothy A. Buthom*

Name: _____

Its: _____

Address: c/o Spears Grisanti & Brown LLC
45 Rockefeller Plaza, Suite 1709
New York, NY 10111
Attn: Dorothy Buthom

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THE UNIVERSITY OF NORTH CAROLINA AT
CHAPEL HILL FOUNDATION
INVESTMENT FUND, INC.

By: */s/ Mark W. Yusko*

Name: Mark W. Yusko

Its: Assistant Treasurer

Address: 300 South Building, CB# 1000
Chapel Hill, NC 27599-1000

All correspondence should be sent to:
308 West Rosemary Street, Suite 203
Chapel Hill, NC 27516

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INVESTORS' RIGHTS AGREEMENT]

TIMOTHY J. WOLLAEGER

/s/ Timothy J. Wollaeger
Timothy J. Wollaeger

Address: 4401 Eastgate Mall
San Diego, CA 92121

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VON RAUTENKRANZ NACHFOLGER GBR

By: */s/ Dieter Feddersen*

Name: Dieter Feddersen

Its: CEO

Address: An Der Favorite 02
D-55030 Dainz
Germany

Series H Preferred Stock
maximum principal
amount of US$7,334.11.

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INVESTORS' RIGHTS AGREEMENT]

WILLIAM G. SPEARS

SPEARS GRISANTI & BROWN LLC

/s/ Dorothy A. Buthom
William G. Spears

Address: c/o Spears Grisanti & Brown LLC
45 Rockefeller Plaza, Suite 1709
New York, NY 10111
Attn: Dorothy Buthom

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WILLIAM L. ASHBURN

/s/ William L. Ashburn
William L. Ashburn

Address: 2744 Inverness Dr.
La Jolla, CA 92037

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INVESTORS' RIGHTS AGREEMENT]

WILLIAM W. MCGUIRE

SPEARS GRISANTI & BROWN LLC

/s/ Dorothy A. Buthom
William W. McGuire

Address: c/o Spears Grisanti & Brown LLC
45 Rockefeller Plaza, Suite 1709
New York, NY 10111
Attn: Dorothy Buthom

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SANDERLING VENTURE PARTNERS V, L.P.

By: Middleton, McNeil & Mills Associates V, LLC

By: */s/ Fred A. Middleton*
Fred A. Middleton
Managing Director

Address: 400 South El Camino Real, Suite 1200
San Mateo, CA 94402-1708

SANDERLING V BIOMEDICAL, L.P.

By: Middleton, McNeil & Mills Associates V, LLC

By: */s/ Fred A. Middleton*
Fred A. Middleton
Managing Director

Address: 400 South El Camino Real, Suite 1200
San Mateo, CA 94402-1708

SANDERLING V LIMITED PARTNERSHIP

By: Middleton, McNeil & Mills Associates V, LLC

By: */s/ Fred A. Middleton*
Fred A. Middleton
Managing Director

Address: 400 South El Camino Real, Suite 1200
San Mateo, CA 94402-1708

SANDERLING V BETEILIGUNGS GMBH & CO. KG

By: Middleton, McNeil & Mills Associates V, LLC

By: */s/ Fred A. Middleton*
Fred A. Middleton
Managing Director

Address: 400 South El Camino Real, Suite 1200
San Mateo, CA 94402-1708

SANDERLING V VENTURES MANAGEMENT

By: */s/ Fred A. Middleton*
Fred A. Middleton
Owner

Address: 400 South El Camino Real, Suite 1200
San Mateo, CA 94402-1708

HENRY GOODWIN

/s/ Henry Goodwin
Henry Goodwin

Address: 1221 McKinney
Suite 3900
Houston, TX 77010

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ALLEN FAMILY TRUST DATED 10/12/81

By: */s/ Dick Allen*

Its: *Trustee*

Address: 4199 Campus Drive, Suite 830
Irvine, CA 92612

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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

SCHEDULE B

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
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.
Palavaccini Partners, LP
Anacapa Investors, LLC —Anacapa I
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

SCHEDULE C

NEW INVESTORS

Kingsbury Capital Partners, L.P.
Kingsbury Capital Partners, L.P., II
Kingsbury Capital Partners, L.P., III
Kingsbury Capital Partners L.P., IV
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.
Palivacinni Partners, LLC
D. Theodore Berghorst
Berghorst 1998 Dynastic Trust
Peter F. Drake
Merrill Lynch Ventures, L.P. 2001
GE Capital Equity Investments, Inc.
Kenneth E. Olson Trust dated 3/16/89
TAH & H Investors, LP
KKH & C Investors, LP
WAH & M Investors, LP
MLH & T Investors, LP
RDH & S Investors, LP
W August Hillenbrand
Furman Selz SBIC, L.P.
Acadia Investors, LLC
Akinyele Aluko
Anacapa Investors, LLC
Arthur E. Nicholas
Arthur & Sophie Brody Revocable Trust dated 3/16/89
Article Third C. Trust U/W William L. Cary
Aureus Digirad, LLC
Christie C. Salomon
Christina Salomon
Christine Salomon Trust
Clement C. Moore
Comerica Ventures Incorporated
David Rockefeller
David Salomon 12/20/70 Trust
Derbes Family Trust U/D/T dated 4/25/86
Elliot Feuerstein Trust dated 5/14/82
Evanne S. Garguilo Trust
Evanne S. Garguilo

Evvie Golding
Fisk Ventures LLC
Forrest M. and Patricia K. Shumway Marital Trust DTD 4/26/94
George Weissman
Gerald G. Loehr Trust
Harvey Family LLC
Health Care Indemnity, Inc.
Inglewood Ventures, L.P.
Jack F. Butler
JAFCO Co., LTD
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
JAFCO JS3 Investment Enterprise Partnership
JAFCO R-3 Investment Enterprise Partnership
Jennifer Salomon

Jennifer Salomon Trust
Jerome Williams, Jr.
Johnson & Johnson Development Corporation
Kenneth E. Olson Trust dated 3/16/89
Knowles Family Trust
Kyla E. Dunn
Laura E. Dunn, Trustee of the Laura E. Dunn Revocable Trust U/D/T dated 9/28/01
Linda J. Loehr, Marital Trust, Loehr Family Trust dated 2/3/89
Linda J. Loehr, Survivors Trust, Loehr Family Trust dated 2/3/89
Linda K. Olson
Louise Grunwald
Malin Burnham
Margaretta F. Rockefeller
Mildred Weissman
Mitsui & Co., Ltd.
MMC Investments, LLC
MVC Global Japan Fund I
Nathan P. Dunn
Ocean Avenue Investors, LLC – The Special Securities Fund
Page Trust dated 3/3/89
Peter T. Dunn
R.E. Salomon Family, LLC
Ralph Salomon
Rees Jones
Robert Salomons
Salbros LLC
SBSF Biotechnology Fund, L.P.
SBSF Biotechnology Partners, L.P.
Stanley & Maxine Firestone Trust dated 12/02/88

Stephen A. and Lou Ann McAdams
Stephen A. McAdams Rollover IRA
Sutro Group
The University of North Carolina at Chapel Hill Foundation on Investment Fund, Inc.
Timothy J. Wollaeger
Trust UA 12/7/67 F/B/O Katherine FC Cary
von Rautenkranz Nachfolger GbR
William G. Spears
William L. Ashburn
William W. McGuire
Sanderling Venture Partners V, L.P.
Sanderling V Biomedical, L.P.
Sanderling V Limited Partnership
Sanderling V Beteiligungs GMBH & Co. KG
Sanderling V Ventures Management
Henry Goodwin
Allen Family Trust Dated 10/12/81

AMENDMENT TO

SERIES G PREFERRED STOCK AND SERIES H PREFERRED STOCK PURCHASE AND EXCHANGE AGREEMENT AND AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

This Amendment to **SERIES G PREFERRED STOCK AND SERIES H PREFERRED STOCK PURCHASE AND EXCHANGE AGREEMENT AND AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT** (this ***"Amendment"***) is made as of March 11, 2004 by and among Digirad Corporation, a Delaware corporation (the ***"Company"***) and the other parties (collectively, the ***"Stockholders"***) to the Purchase Agreement and the Rights Agreement (each as defined below, and collectively referred to herein as the ***"Series H Agreements"***).

RECITALS

WHEREAS, the Company and certain of the Stockholders are parties to the Company's Series G Preferred Stock and Series H Preferred Stock Purchase and Exchange Agreement, dated as of April 23, 2002 (the ***"Purchase Agreement"***), pursuant to which any amendment thereto requires the written consent of (i) the Company and (ii) at least half in number of the Major Investors (as defined in Section 1.2(d)(i) of the Purchase Agreement),

WHEREAS, the Company and certain of the Stockholders are parties to the Company's Amended and Restated Investors' Rights Agreement, dated as of April 23, 2002 (the ***"Rights Agreement"***), pursuant to which any amendment thereto requires:

(i) with respect to Section 1.2, the written consent of (a) the Company, (b) the holders of a majority of the shares held by the Founders (as defined in the Rights Agreement), and (c) the Investors (as defined in the Rights Agreement) holding 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;

(ii) with respect to Section 1.3, the written consent of (a) the Company and (b) Investors holding a majority of the Common Stock issued or issuable upon conversion of the Series G Preferred Stock and Series H Preferred Stock, voting as a single class; and

(iii) with respect to Sections 2.16 and 3.5, the written consent of (a) the Company and (b) a majority of the Major Investors (as defined in the Purchase Agreement).

WHEREAS, in anticipation of the initial public offering of the Common Stock of the Company, the Company and the Stockholders believe that it is in the best interests of the Company and the Stockholders to amend the Series H Agreements to, among other things, conform the definition of a "qualifying public offering" to the definition set forth in the Company's Amended and Restated Certificate of Incorporation, as amended from time to time.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and conditions set forth below, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties to this Amendment hereby agree as follows:

AMENDMENT

1. Section 8.3 of the Purchase Agreement hereby is amended and restated in its entirety to read as follows:

Section 8.3. 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 First Closing; *provided, however*, that Sections 8.2 (Additional Debt), 8.15 (Publicity) and 8.17 (Directors' and Officers' Insurance) shall terminate upon the closing of the Company'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 a closing of the Company's sale of its Common Stock in a Qualifying Public Offering (as defined in the Company's Amended and Restated Certificate of Incorporation, as amended from time to time).

2. Section 1.2(d)(iii) of the Rights Agreement hereby is amended and restated in its entirety as follows:

(iii) to the issuance or sale of shares of equity securities on and after a closing of the Company's sale of its Common Stock in a Qualifying Public Offering (as defined in the Company's Amended and Restated Certificate of Incorporation, as amended from time to time).

3. Section 1.3(e)(iii) of the Rights Agreement hereby is amended and restated in its entirety as follows:

(iii) to the issuance or sale of shares of equity securities on and after a closing of the Company's sale of its Common Stock in a Qualifying Public Offering.

4. Section 2.16(ii) of the Rights Agreement hereby is amended and restated in its entirety as follows:

(ii) on the seventh anniversary of the Closing of the Company's sale of its Common Stock in a Qualifying Public Offering.

5. Section 3.5 of the Rights Agreement hereby is amended and restated in its entirety to read as follows:

The Company shall take such actions and do such things as may be necessary to cause each outstanding share of Preferred Stock to be automatically converted (in accordance with the provisions of Article IV, Division B, Section 5 of the Amended and Restated Certificate of Incorporation of the Company) into shares of Common Stock immediately upon the approval of both (i) at least half in number of the Major Investors and (ii) the

holders of a majority of the then outstanding voting power of the Series H Preferred Stock, voting as a single 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 prior to the closing of such sale of securities.

6. Section 3.11 of the Rights Agreement hereby is added to read as follows:

3.11 Termination of Covenants. Sections 3.3 (Required Approvals), 3.4 (Request for Redemption), 3.5 (Automatic Conversion), 3.7 (Proprietary Information Agreements), 3.8 (Option Vesting), 3.9 (Compliance with Law) and 3.10 (Insurance), shall terminate and be of no further force and effect upon the closing of the Company's sale of its Common Stock in a Qualifying Public Offering.

7. Except as modified by this Amendment, each of the Series H Agreements shall remain in full force and effect in accordance with its respective terms. This Amendment shall be deemed an amendment to:

(A) the Purchase Agreement, pursuant to which any amendment thereto requires the written consent of (i) the Company and (ii) at least half in number of the Major Investors;

(B) Section 1.2 of the Rights Agreement, pursuant to which any amendment thereto requires the written consent of (a) the Company, (b) the holders of a majority of the shares held by the Founders (as defined in the Rights Agreement), and (c) the Investors (as defined in the Rights Agreement) holding 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;

(C) Section 1.3 of the Rights Agreement, pursuant to which any amendment thereto requires the written consent of (a) the Company and (b) Investors holding a majority of the Common Stock issued or issuable upon conversion of the Series G Preferred Stock and Series H Preferred Stock, voting as a single class; and

(D) Sections 2.16 and 3.5 of the Rights Agreement, pursuant to which any amendment thereto requires the written consent of (a) the Company and (b) a majority of the Major Investors (as defined in the Purchase Agreement).

8. This Amendment may be executed by facsimile and in any number of counterparts by the parties hereto, all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have executed this **AMENDMENT** as of the date set forth in the first paragraph hereof.

COMPANY:

DIGIRAD CORPORATION

By: /s/ *David M. Sheehan*
David M. Sheehan
Chief Executive Officer

Address: 13950 Stowe Drive
Poway, California 92064

COUNTERPART SIGNATURE PAGE TO AMENDMENT TO
SERIES G PREFERRED STOCK AND SERIES H PREFERRED STOCK PURCHASE AND EXCHANGE AGREEMENT AND AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

By its signature below, the undersigned does hereby become a party to and agrees to be bound by the provisions of the Amendment to the Series G Preferred Stock and Series H Preferred Stock Purchase and Exchange Agreement and Amended and Restated Investors' Rights Agreement (the "Amendment"), to which this signature page is appended, and the undersigned hereby authorizes the Company to append this signature page as a counterpart to the Amendment as evidence thereof.

[Signature Block for Individuals]

*
Signature

Printed Name

[Signature Block for Entities]

*
Name of Entity

By:
Name:
Title:

* See attached Schedule of Stockholders

SCHEDULE OF STOCKHOLDERS

Individuals	**Entities**
Jack F. Butler	GE Capital Equity Investments, Inc.
Clinton L. Lingren	JAFCO CO., Ltd.
Timothy J. Wollaeger	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
	JAFCO JS3 Investment Enterprise Partnership
	JAFCO R-3 Investment Enterprise Partnership
	Kingsbury Capital Partners LP
	Kingsbury Capital Partners LP II
	Kingsbury Capital Partners LP III
	Kingsbury Capital Partners LP IV
	Merrill Lynch Ventures L.P. 2001

Mitsui & Co., Ltd.
MVC Global Japan Fund I
Ocean Avenue Investors, LLC – the Special Securities Fund
Palivacinni Partners, LLC
Sanderling V Beteiligungs GmbH & Co. KG
Sanderling V Biomedical, L.P.
Sanderling V Limited Partnership
Sanderling V Ventures Management
Sanderling Venture Partners V, L.P.
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 (QP), LP
Von Rautenkranz Nachfolger GbR
Kenneth E. Olson Trust
Knowles Family Trust

AMENDMENT TO AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

This Amendment to **AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT** (this ***"Amendment"***) is made as of June 1, 2004 by and among Digirad Corporation, a Delaware corporation (the ***"Company"***) and certain other parties (collectively, the ***"Stockholders"***) to the Rights Agreement (as defined below).

RECITALS

WHEREAS, the Company and the Stockholders are parties to the Company's Amended and Restated Investors' Rights Agreement, dated as of April 23, 2002, as amended March 11, 2004 (the ***"Rights Agreement"***), pursuant to which:

(i) the prior written consent of the Holders of a majority of the outstanding Registrable Securities (each term as defined therein) is required pursuant to Section 2.14 thereof prior to the Company's granting of certain registration rights thereunder; and

(ii) any amendment thereto requires the written consent of (a) the Company and (b) a majority of the Major Investors (as defined therein) pursuant to Section 5.7 thereof.

WHEREAS, in anticipation of the Company's issuance of certain warrants to purchase shares of its Common Stock to certain holders of notes payable in the original, aggregate principal amount of $735,000 and any of their respective successors or designees (each, a ***"Noteholder"*** and collectively, the ***"Noteholders"***), the Company and the Stockholders believe that it is in the best interests of the Company and the Stockholders to amend the Rights Agreement to provide certain registration rights to the Noteholders.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and conditions set forth below, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties to this Amendment hereby agree as follows:

AMENDMENT

1. ***Amendment to Section 2.1(b).*** Section 2.1(b) of the Rights Agreement is hereby amended and restated in its entirety as follows:

"(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, Series F Preferred Stock, Series G Preferred Stock and Series H Preferred Stock, (ii) the Common Stock issuable or issued upon exercise of those certain Warrants to Purchase Common Stock of Digirad Corporation issued to certain holders of notes payable in the original, aggregate principal amount of $735,000 and their successors or designees thereto, pursuant to which up to 250,000 shares of Common Stock may be issued (as adjusted for any subsequent stock splits, stock dividends or other recapitalizations following the date hereof) following the Company's consummation of an underwritten public offering of

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shares of the Company's Common Stock registered under the Securities Act and (iii) 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, the shares referenced in subsections (i) and (ii), 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."

2. ***Consent to and Approval of Amendment.*** Except as modified by this Amendment, the Rights Agreement shall remain in full force and effect in accordance with its respective terms. This Amendment shall be deemed an amendment authorized by or consent given pursuant to:

(A) Section 2.14 of the Rights Agreement, pursuant to which any agreement providing for the granting of certain registration rights requires the prior written consent of the Holders of a majority of the outstanding Registrable Securities (each term as defined therein).

(B) Section 5.7 of the Rights Agreement, pursuant to which any amendment thereto requires the written consent of (a) the Company and (b) a majority of the Major Investors (as defined therein).

3. ***Addition of Noteholders as Parties***. By, and expressly conditioned upon, his or its execution of a counterpart signature page to this Amendment (whether on or after the date hereof), each Noteholder shall be deemed to become a "Holder" for all purposes under the Rights Agreement and shall become a party to Section 2 of the Rights Agreement and shall have the rights and obligations set forth therein. Any schedules or exhibits to the Rights Agreement shall thereafter be amended as appropriate to reflect the addition of such individuals or entities as parties thereto.

4. ***Conflicts.*** Except as expressly amended, restated or consented to in this Amendment, the Rights Agreement shall continue in full force and effect. In the event of any conflict between the terms of this Amendment and the Rights Agreement, the terms of this Amendment shall govern and control.

5. ***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.

6. ***Counterparts.*** This Amendment may be executed by facsimile and in any number of counterparts by the parties hereto, all of which together shall constitute one instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this **AMENDMENT** as of the date set forth in the first paragraph hereof.

COMPANY:

DIGIRAD CORPORATION

By: /s/ *David M. Sheehan*
David M. Sheehan,
Chief Executive Officer

Address: 13950 Stowe Drive
Poway, California 92064

COUNTERPART SIGNATURE PAGE TO AMENDMENT TO
AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

By his or its signature below, the undersigned does hereby become a party to and agrees to be bound by the provisions of the Amendment to the Amended and Restated Investors' Rights Agreement (the "Amendment"), to which this signature page is appended, and the undersigned hereby authorizes the Company to append this signature page as a counterpart to the Amendment as evidence thereof.

JACK F. BUTLER

/s/ *Jack F. Butler*
Signature

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CLINTON J. LINGREN

/s/ *Clinton J. Lingren*
Signature

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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

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SANDERLING VENTURE PARTNERS V, L.P.

By: Middleton, McNeil & Mills Associates V, LLC

By: */s/ Fred A. Middleton*
Fred A. Middleton,
Managing Director

SANDERLING V BIOMEDICAL, L.P.

By: Middleton, McNeil & Mills Associates V, LLC

By: */s/ Fred A. Middleton*

Fred A. Middleton,
Managing Director

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SANDERLING V LIMITED PARTNERSHIP

By: Middleton, McNeil & Mills Associates V, LLC

By: */s/ Fred A. Middleton*
Fred A. Middleton,
Managing Director

SANDERLING V BETEILIGUNGS GMBH &
CO. KG

By: Middleton, McNeil & Mills Associates V, LLC

By: */s/ Fred A. Middleton*
Fred A. Middleton,
Managing Director

SANDERLING V VENTURES MANAGEMENT

By: Middleton, McNeil & Mills Associates V, LLC

By: */s/ Fred A. Middleton*
Fred A. Middleton,
Managing Director

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GE CAPITAL EQUITY INVESTMENTS, INC.

By: */s/ Mary P. Harman*
Mary P. Harman,
Vice President

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MERRILL LYNCH VENTURES, L.P. 2001

By: Merrill Lynch Ventures LLC,

Its General Partner

By: */s/ Mandakini Puri*
Mandakini Puri,
Executive Vice President

COUNTERPART SIGNATURE PAGE TO AMENDMENT TO
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PALIVACINNI PARTNERS, LLC

By: /s/ *Douglas Reed, M.D.*
Douglas Reed, M.D.,
Managing Member

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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, M.D.*
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, M.D.*
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, M.D.*
Douglas Reed, M.D.,
Managing Director

EXHIBIT 10.1

*** CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT (INDICATED BY ASTERISKS) HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT UNDER 17 C.F.R. SECTIONS 200.80(B)(4), 200.83 AND 230.406.

LICENSE AGREEMENT

FOR

DETECTOR

BETWEEN

DIGIRAD CORPORATION

AND

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

THROUGH THE

ERNEST ORLANDO LAWRENCE
BERKELEY NATIONAL LABORATORY

TABLE OF CONTENTS

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 DE-AC03-76SF00098 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 ***
***
***
***. The Field of Use specifically excludes the use for *** as well as *** of all kinds.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

2.3 "Highly Inflationary Currency" means the currency of any economy with a cumulative inflation rate of 100% or more over the most recent three calendar years, as measured by consumer price indices published by the International Monetary Fund (International Financial Statistics), Washington, D.C.

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: (i) cash, trade or quantity discounts; (ii) sales, use, tariff, import/export duties or other excise taxes imposed upon particular sales; and (iii) transportation (and insurance charges associated with transportation) and allowances or credits to customers because of rejections or returns. 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 the selling price at which products of similar kind and quality, sold in similar quantities, are currently being offered for sale by Digirad. 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 the average selling price at which products of similar kind and quality, sold in similar quantities, are then currently being offered for sale by other manufacturers. 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 Digirad's cost of manufacture, determined by generally accepted accounting procedures, plus Digirad's standard mark-up. 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 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 the Selling Price of Licensed Products of the Joint Venture or Affiliate to the Joint Venture's or Affiliate's customers and subject to payment under Article 5. For sales of Licensed Products to a Joint 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 the customary charge to an unrelated third party in an arms length transaction and subject to payment under Article 5.

2.7 "Affiliate(s)" of a party means any entity which, directly or indirectly, controls such party, is controlled by such party or is under common control with such party, "control" for these purposes being defined as the actual, present capacity to elect a majority of the directors of such Affiliate.

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).

3.6 If this Agreement terminates for any reason, Berkeley Lab, at its sole discretion, shall determine whether Digirad must cancel or assign to Berkeley Lab any or all sublicenses.

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 *** dollars ($***) of which *** dollars ($***) has been previously paid under the Option Agreement. The remaining *** dollars ($***) shall be paid in equal installments as follows: *** dollars ($***) within fifteen (15) days of the Effective Date and *** dollars ($***) on the first anniversary of this Agreement.

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 ninety (90) days. 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 the same royalties it would pay if Digirad was making, using, or selling Licensed Products under this Agreement. Royalties shall be calculated by applying the percentages due on the sale of Licensed Product (see Section 5.1. above) hereunder against the Selling Price for which the Sublicensee

has sold Licensed Product. The royalties paid to Digirad may exceed the royalties paid to Berkeley Lab.

5.4 Digirad shall pay to Berkeley Lab by August 31 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 quarterly together with its royalty report under paragraph 7.4. Digirad shall be entitled to credit interference and opposition expenses against the earned royalty income due Berkeley Lab so long as such expenses do not arise from any opposition or interference raised by Digirad, its Affiliates, or Joint Ventures or Joint Venture members.

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 first determine the earned royalties in the foreign currency of the country in which the Licensed Product was sold and then convert them into equivalent United States dollars at the closing exchange rate published by THE WALL STREET JOURNAL on the last business day of the reporting period. If a Licensed Product is sold for a Highly Inflationary Currency, Digirad shall convert the sales subject to royalties into equivalent United States funds using the closing exchange rates in effect on the date of invoicing (or if no invoicing, of delivery) as published by THE WALL STREET JOURNAL. Digirad shall quote the exchange rate in the Continental method (local currency per U.S. dollar).

5.7 Digirad may not reduce royalties payable by any value-added taxes, fees, or other charges imposed on the remittance of royalty income imposed by the government of any State of the United States or the government of any country. Digirad is also responsible for all bank transfer charges.

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 complete marketing preparation and product introduction of the Licensed Products to the marketplace by June 30, 1999; or

6.4.2 at any time during the exclusive period of this Agreement, reasonably fill the market demand for Licensed Products following commencement of marketing.

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 sixty (60) day 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 Digirad is entitled to the benefit of the more favorable rates. Digirad must agree in writing to accept all terms of that third party license in whole and not in part in order to enjoy the benefit of the more favorable rates which shall commence upon delivery to Berkeley Lab of that written agreement.

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.

7. PROGRESS AND ROYALTY REPORTS

7.1 Beginning June 1, 1999 and semi-annually 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 quarterly royalty reports to Berkeley Lab on or before February 28, May 31, August 31 and November 30 of each year. Each royalty report must cover the most recently completed calendar quarter 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:

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 five (5) years from the date of the royalty payment to which they pertain and shall open them to inspection by representatives or agents of Berkeley Lab at reasonable times. Digirad shall provide an audited statement to Berkeley Lab annually at such time as Digirad completes its corporate audited financial statements.

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

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

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 sixty (60) days 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 ninety (90) days after its notice. If that termination is without cause within three years of the Effective Date, Digirad shall pay Berkeley Lab as liquidated damages *** with the notice of termination before that notice is effective.

12. DISPOSITION OF LICENSED PRODUCTS ON HAND UPON TERMINATION

12.1 Within forty-five (45) days 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 one hundred twenty (120) days Licensed Product of termination. The sale of any Licensed Product within one hundred twenty (120) days is subject to the terms of this Agreement. Digirad shall cease sales of Licensed Product one hundred twenty (120) days 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) Austria

(ii) Belgium

(iii) Switzerland

(iv) Germany

(v) Denmark

(vi) Spain

(vii) France

(viii) United Kingdom

(ix) Ireland

(x) Italy

(xi) Netherlands

(xii) Sweden

(b) Japan.

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 thirty (30) days 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 *** dollars ($***), upon the day of execution of this Agreement, for the foreign patent counterparts to the U.S. application for the following countries: Germany, France and Japan.

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 *** dollars ($***) 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 any interference or oppositions and maintaining all resulting patents. Berkeley Lab will hold those patents in its name and obtain them using counsel of its choice that is reasonably acceptable to Digirad.

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 quarterly report at the end of March, June, September, and December of each year 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, neither party may notify a third party of the infringement of any of Licensed Patents without first obtaining written consent of the other party, which consent shall not be unreasonably denied or delayed. Both parties shall use their best efforts in cooperation with each other to terminate such infringement without litigation.

16.2 Digirad may request that Berkeley Lab take legal action against the infringement of Licensed Patents. Digirad shall make that request in writing and include reasonable evidence of the infringement and damages to Digirad. If the infringing activity has not been abated within ninety (90) days of that request, Berkeley Lab may elect to: (a) commence suit on its own account; or (b) refuse to participate in the suit. Berkeley Lab shall give written notice of its election to Digirad by the end of the ninetieth (90th) day after receiving notice of the request from Digirad. Digirad may thereafter bring suit for patent infringement only if Berkeley Lab elects not to commence suit (other than as nominal party plaintiff) and if the infringement occurred during the period and in a jurisdiction where Digirad has exclusive rights under this Agreement. In such event, Digirad shall have the sole control and sole decision making authority with respect to defending and enforcing the Licensed Patents solely in connection with such suit and further provided that Berkeley Lab does not thereafter join such suit. If, however, Digirad elects to bring suit in accordance with this paragraph, Berkeley Lab may thereafter join such suit at its own expense.

16.3 Such legal action as is decided upon must be at the expense of the party on account of whom suit is brought and all consequent recoveries belong to that party. But if Berkeley Lab and Digirad jointly bring legal action and fully participate in it, the parties must jointly share both the expense and all recoveries in proportion to the share of expense each party pays.

16.4 Each party shall cooperate with the other in litigation proceedings, including without limitation, signing and arranging for the signature on documents, joining actions as nominal party and similar actions, instituted under this Agreement but at the expense of the party on account of whom suit is brought. The party bringing the suit will control that litigation, except that Berkeley Lab may elect to be represented by counsel of its choice, at its sole expense, in any suit brought by Digirad.

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

(INDEMNIFICATION). No settlement of any claim, suit or perceived threat thereof received by Berkeley Lab shall be made without the approval of Digirad if indemnification is sought by Berkeley Lab

hereunder unless require by final decree of a court of competent jurisdiction. Digirad shall pay all reasonable costs incurred by Berkeley Lab in enforcing this indemnification, including reasonable attorney fees.

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	$1,000,000
19.2.2	Products/Completed Operations Aggregate	$5,000,000
19.2.3	Personal and Advertising Injury	$1,000,000
19.2.4	General Aggregate (commercial form only)	$5,000,000

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 thirty (30) days 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 thirty (30) day 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.

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 such reasonable administrative fees and interest as Berkeley Lab generally charges third parties on overdue accounts, such interest not to exceed eight percent (8%) simple interest per annum.

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
Fax: 510/486-5995
Telephone: 510/486-7113

Berkeley, California 94720
Attention: Licensing Manager
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.

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 ***

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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 ***
***
***
The Field of Use specifically excludes the use of ***, the Non-Exclusive Field of Use and all other kinds of ***.

2.2.2 "Non-Exclusive Field of Use" means the development, production and use of ***. Non-Exclusive Field of Use specifically excludes the Field of Use, the use of ***, as well as all kinds of *** other than ***.

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 ***

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

***
***

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 *** dollars ($***) of which *** dollars ($***) has been previously paid under the Option Agreement, and the remaining *** dollars ($***) has been paid to Berkeley Lab under this Agreement.

4.1.2 within the Non-Exclusive Field of Use, Digirad shall pay Berkeley Lab a license issue fee of *** dollars ($***) of which *** dollars ($***) shall be payable within fifteen (15) days of the effective date of this Amendment, and the remaining *** dollars ($***) shall be paid within one year of the effective date of this Amendment.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

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 August 31 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.

CALENDAR YEAR	MINIMUM ANNUAL ROVALTY FOR FIELD OF USE	MINIMUM ANNUAL ROYALTY FOR NON-EXCLUSIVE FIELD OF USE
1999	*** (paid)	N/A
2000	*** (paid)	N/A

2001	***
***	------
2002	***
***	------
2003	***
***	------
2004	***
***	------
2005 and each year thereafter	
***	*** --

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:

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

6.4.1.1 complete market preparation and product introduction of the Licensed Products to the marketplace by *** (done); or

6.4.1.2 at any time during the exclusive period of this Agreement, reasonably fill the market demand for Licensed Products following commencement of marketing.

6.4.2 With regard to the Non-Exclusive Field of Use:

6.4.2.1 complete design of prototype photodiode(s) by ***;

6.4.2.2 fabricate prototype photodiode(s) by ***;

6.4.2.3 complete design of production photodiode by ***;

6.4.2.4 fabricate production photodiode by ***;

6.4.2.5 complete assembly of production module of Licensed Product by ***; or

6.4.2.6 complete market preparation and product introduction of the Licensed Products to the marketplace by ***;

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 sixty (60) 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 Digirad is entitled to the benefit of the more favorable rates. Digirad must agree in writing to accept all terms of that third party license in whole and not in part in order to enjoy the benefit of the more favorable rates which shall commence upon delivery to Berkeley Lab of that written agreement.

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 December 1, 2001 and semi-annually 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 ninety (90) days after its notice. If that termination pertains to the Field of Use and is without cause within three (3) years of the Effective Date, Digirad shall pay Berkeley Lab as liquidated damages *** dollars ($***) with the notice of termination before that

notice is effective.

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 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 Section 15.3 above). Digirad shall bear the expense of any interference or oppositions and maintaining all resulting patents. Berkeley Lab will hold these patents in its name and obtain them using counsel of its choice that is reasonably acceptable to Digirad.

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 Digirad's request but no more than quarterly, 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.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

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

*** CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT (INDICATED BY ASTERISKS) HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT UNDER 17 C.F.R. SECTIONS 200.80(B)(4), 200.83 AND 230.406.

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 thirty (30) days after customer payment or seventy-five (75) 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 30 days upon written request from Digirad.

3.3 AUDIT. Segami shall have the right to audit the books, financial accounts and documents of Digirad one (1) time 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 ten (10) 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

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 thirty (30) 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 fifteen (15) 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 third or any subsequent rejection or if the corrections are not made within thirty (30) 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 30 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 ten (10) 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.

(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 thirty (30) Keys in escrow. If Segami materially fails to provide a sufficient number of Keys to Digirad for delivery of Products to end-users, after thirty (30) 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 seventy-five (75) 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. All escrow fees will be borne by Digirad.

(4) Segami agrees to provide one standard training program for Digirad personnel. Such program shall be given at Digirad's main office on a schedule reasonably acceptable to Segami but commencing no later than sixty (60) days after Digirad's written request. Digirad shall bear Segami's out-of-pocket travel costs in connection with the program including air travel, room and board.

(5) Segami shall provide free technical support to Digirad personnel up to 200 hours during the first year, and 100 hours 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

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 thirty (30) 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 thirty (30) days after written notice to Digirad. A material breach of and default

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) Segami shall not be liable for the actions of any end-users who rely on the images produced by the Product as a diagnoses without the aid of independent professional medical judgment or who does not operate the Product under the direct supervision of a board certified nuclear medicine physician. Digirad shall be responsible for supplying the end-user with a notice of limitation of liability in writing and in language consistent with this Section 11 (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, Segami may, at its option: (1) procure for Digirad the right to continue to use the work performed by Segami; or (2) replace or modify the work performed by Segami to make its use non-infringing while yielding substantially equivalent results. If neither of such options are or would be available on a basis that Segami finds commercially reasonable, Segami may terminate this Agreement, Digirad shall return infringing work performed to Segami and Segami shall refund the fees paid for the associated services. Digirad reserves any other legal or equitable rights or remedies in may have. This indemnity does not cover alleged infringements caused by modifications to the work performed by Segami that are not made by Segami or that result from Digirad provided designs specifications or other information or from combination of such work with products or services not provided by Segami.

(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.

(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) four (4) 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, one (1) 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

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 fourteen (14) calendar 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 Baltimore, Maryland if Digirad initiates the dispute and in San Diego, California if Segami initiates the dispute, composed of one member selected by each party, and a third mutually agreed upon. Such arbitration shall be conducted pursuant to the rules of the American Arbitration Association (the "AAA") or other governing rules and a decision of the board of arbitration (including an award of costs of the board) shall be final and binding upon the parties.

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 Maryland (excepting those conflicts of laws provisions which would serve to defeat application of Maryland substantive law). 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 Maryland 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 which do not prevail in such proceedings shall pay the reasonable attorneys fees and other costs and expenses, including investigation costs, incurred by the prevailing party in such proceedings.

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.

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 By: /s/ Scott Huennekens

Title: Controller (SEAL) Title: President & COO

Segami Corporation

By:	/s/ ILLEGIBLE (Secretary)	By:	/s/ ILLEGIBLE
Title:	(SEAL)	Title:	President

EXHIBIT A
PRICING SCHEDULE

FEES: PLANAR IMAGING SPECT IMAGING
UNITS 1-20
$***/unit + $***/unit
21-50
$***/unit + $***/unit
51-100
$***/unit + $***/unit
101-250
$***/unit + $***/unit
251-
$***/unit + $***/unit

Quantity pricing for the software shall be solely dependent upon the number of planar imaging units purchased, and shall be cumulative throughout the life of the Agreement. A minimum fee payment of *** dollars ($***) shall be paid by Digirad to Segami each Agreement year, which shall be defined as July 1- June 30. The first Agreement year shall begin July 1, 1999. Any shipments made to Digirad prior to July 1, 1999 shall be credited toward the minimum requirement fee payment for the first Agreement year of July 1, 1999 - June 30, 2000. All such minimum fee payments shall be payable in advance quarterly to Segami, and shall be credited towards actual fee payments, without any time limit.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

EXHIBIT B

Written By: Richard Conwell & Alex Shek

Approval:

_____	5/25/99
Product Engineering Manager	Date
_____	5/25/99
Quality Assurance Manager	Date

REVISION HISTORY

RELEASE DATE	CO# REV	CHANGE
5/25/99	N/A 01	Initial Prototype Release

1.0 INTRODUCTION

1.1 PURPOSE

This document details the software requirements that have been established for the 2020TC Gamma Camera. These requirements shall be used by the software developer(s) as software development requirements to meet the design specification and software risk analysis mitigation plan for the 2020TC Gamma Camera.

1.2 SCOPE

This document will outline the software design for the software data interface, processing and diagnostic requirements of the 2020tc Gamma Camera. This requirement specification covers the software programs TBD.

1.2.1 The software shall be designed to run as service modules under Windows NT and shall address these basic system goals:

a. Using a PLX Technology driver, interface Digirad's HotLink PCI data acquisition card to a data acquisition and processing module.

b. Perform data processing to:

- Decode raw data (32 bit word) into digital address, energy and other status bits
- Apply energy correction (linearity and offset) and spatial X-Y lookup
- Apply energy window(s) discrimination
- Apply "bad detector element" filter
- Continuously build image in a buffer memory
- Provide timing information from time stamps in the data stream
- Interface to Segami Corporation's Mirage display, control and imaging processing software.

c. Provide diagnosis modules whose functions shall be to provide processing and a GUI interface for:

- Acquisition and display of an energy spectrum for any selected detector element.
- Acquire and generate energy correction (linearity and offset) for each detector element.
- Generation and editing of a "bad detector element" listing.
- Generation of a sensitivity uniformity correction.

1.3 DEFINITIONS, ACRONYMS, AND ABBREVIATIONS

1.3.1 2020TC - A solid state gamma camera with a 64 x 64-detector element, quantized detector head.

1.3.2 Detector Element - The individual detectors of the quantized detector head. Each detector element is approximately 3 mm x 3 mm in area and 6 mm thick.

1.3.2 Pd - Peripheral Component Interconnect. A parallel bus, personal computer back plane interface standard.

1.3.3 MCA - Multi-Channel Analyzer. A system which tallies the frequency of a stream of signal events as a function of the signal's magnitude. The display of the tallied events takes the form of a histogram.

1.3.4 Energy Spectrum - The histogram of the frequency of a gamma ray photons as a function of their energy.

1.3.5 Energy Window - The interval of gamma ray energy over which all gamma rays falling within the interval are tallied.

1.3.6 Time Stamps - A timing mark embedded in a 32-bit digital word.

1.3.7 Bad Detector Element - A detector element in the detector head that is not working within specification.

1.3.8 Active Detector Element - A detector element in the detector head that is working within specification, and is not included in the bad detector element file.

1.3.9 Detection Efficiency - The ratio, expressed as a percentage, of gamma rays detected to those entering a detector element.

1.3.10 Intrinsic Sensitivity - The detection efficiency measured without a collimator in place.

1.3.11 HOTLink - A high speed, serial communications link between the 2020tc detector head and a PCI format interface board.

1.3.12 INA Board - An instrumentation amplifier system mounted on the HOTLink transmitter board installed in the camera head case.

1.3.13 Energy Linearity - The numerical process of mapping the raw value of a gamma ray photon's measured energy into a linear scale having units of energy. In the 2020TC this process is accomplished with a simple - order polynomial.

1.3.14 Energy Offset - The offset from zero of the linearized raw values of a gamma ray photon's measured energy.

1.3.15 Flood Field - A planar source of gamma ray radiation.

1.3.16 Sensitivity Uniformity - The intrinsic variation in gamma ray photon sensitivity of the individual detector elements of the 2020TC.

1.3.17 Digital Address - The unique numerical value assigned to each detector element in the 2020tc detector head.

1.3.18 Spatial Address - The actual spatial location of a detector element expressed as an X(Y coordinate.

1.3.19 Mirage Software - A gamma camera image processing software supplied by Segami Corporation.

1.3.20 SPECTour Chair - A mechanized rotating chair assembly to which the 2020TC head is attached and in which a seated patient maybe imaged for SPECT.

1.3.21 In this document the word "shall" will mean that it is a requirement, while "should" is a suggestion.

1.4 REFERENCES

1.4.1 SOP 0402 Software Quality Assurance Requirements

1.4.2 PRSOO 1 Gamma Camera Product Requirements Specification

1.4.3 HRSOO2 Gamma Camera Hardware Requirements Specification

1.5 OVERVIEW
This document is a statement of the requirements for the data acquisition, processing, interface and diagnostic software of the 2020TC Gamma Camera. The higher level requirements are from the PRSOOl Gamma Camera Product Requirements Specification and are listed along with the more detailed software requirements.

2.0 OVERALL DESCRIPTION

2.1 PRODUCT PERSPECTIVE
The 2020TC Gamma Camera is intended for use in the generation of clinical images in Nuclear Medicine applications. Specifically, the Camera is intended to image the distribution of radiopharmaceuticals in the body by means of a collimated photon radiation detector array. In so doing, the system produces images depicting the anatomical distribution of the radiopharmaceuticals within the human body for interpretation by authorized medical personnel.

2.2 USER CHARACTERISTICS
The user of this device will primarily be a nuclear medicine technologist or nuclear medicine doctor. The user of the diagnostic modules will be a service technician or engineer.

2.3 CONSTRAINTS

2.3.1 The software shall be written in the higher-level language C. The source code shall bb written with maintainability as a major priority.

2.4 ASSUMPTIONS AND DEPENDENCIES
The operating system shall be Windows NT.

2.5 APPORTIONING OF REQUIREMENTS
This section is not applicable to these requirements because there are no requirements that need to be delayed until future versions of the system.

3.0 DESIGN REQUIREMENTS
These design requirements are based on PRS001 Gamma Camera Product Requirements Specification.

3.1 DESIGN REQUIREMENT: PRS001 SECTION 2: It is critical that a simple means of removing the imager head from the Camera system's support arm be provided and that a simple means of registering, positioning, attaching, and locking the imaging head to a SPECT gantry assembly be provided.

3.1.1 SOFTWARE REQUIREMENTS
In the SPECT data acquisition mode, the image processing and control software will ***
it will also
***
***
***
***

The user should have the choice to ignore ***
and operate the SPECT data acquisition mode by ***
***

***
***
***

SPECT Chair only rotates in clockwise direction.

***
***

3.2 DESIGN REQUIREMENT: PRS001 SECTION 4.: Interface Card: It is desirable that the computer communicates with the interface card via software driver.... PRS001 4: It is critical that the imaging head and Camera system should be capable of a count rate performance of 250,000 counts/sec.

3.2.1 SOFTWARE REQUIREMENTS
Data to and from the camera head is communicated ***
***
***
***
***

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***
***
***

***
***
***

***. These values currently are set at ***
***
***

Software use of all these flags may suggest refinements in how they are set and reset. For now it is envisioned that an overrun condition would cause software to read until the Information contained in this document is proprietary to DIGIRAD Corporation and should not be released outside of the company without written permission of the company.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

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3.3 DESIGN REQUIREMENT: Not Stated in PRS00l

3.3.1 SOFTWARE REQUIREMENTS
After the DMA transfer, the software will decode the data package and display the events on screen. Software shall allow the user to mask off hot pixels and to query the number of events of a particular pixel by

simply click at its location.

3.4 DESIGN REQUIREMENT: Not Stated in PRS001

3.4.1 SOFTWARE REQUIREMENTS
The count data in host memory is in raw energy units and shall be converted to energy units of keV. This conversion shall be performed using a file containing gain and offset coefficients for each detector element. Energy corrections shall be applied to each event before the event is subject to an energy window test.

3.5 DESIGN REQUIREMENT: Not Stated in PRS00l

3.5.1 SOFTWARE REQUIREMENTS
Up to four energy windows shall be available to the user. The upper and lower energy limits of these windows shall be selectable by the user. Events falling within the bounds of each of these windows shall be used to build a scalar file. These four scalar files may be combined in any fashion to produce three different image files.

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3.6 DESIGN REQUIREMENT: Not Stated in PRS00l

3.6.1 SOFTWARE REQUIREMENTS
The image files shall be configured as 64 x 64-element arrays.

3.7 DESIGN REQUIREMENT: Not Stated in PRS00l

3.7.1 SOFTWARE REQUIREMENTS
A bad detector element correction shall be applied every time an image is framed. This shall include persistence mode images. The bad detector element correction shall be accomplished by deleting from the image files data from those detector elements listed in the Bad Detector Element file. The missing data for the bad detector elements shall be derived by computing the mean value of the data from all the detector elements surrounding the bad detector element, then assigning that mean value as the bad detector element's value.

3.8 DESIGN REQUIREMENT: Not Stated in PRS001

3.8.1 SOFTWARE REQUIREMENTS
An intrinsic sensitivity correction shall be applied every time an image is framed. This shall include persistence mode images. The intrinsic sensitivity correction shall be accomplished by multiplying the event data of each uncorrected active detector element by that detector element's intrinsic sensitivity correction coefficient stored in a file.

3.9 DESIGN REQUIREMENT: PRS001 SECTION 6.: IT IS CRITICAL THAT THE SYSTEM SOFTWARE performs four basic functions. These functions are Acquisition, Display, Data Transfer/Storage and Diagnostics. SECTION 6 A. The Diagnostic module will acquire data and correct energy scale.

3.9.1 SOFTWARE REQUIREMENTS
The Energy Correction module shall generate a gain and offset coefficient that can be used for conversion into units of keV - each detector element's raw digitized energy value. These coefficients shall be stored in a file. Energy correction shall be done by collecting data from flood field data sets of two isotopes of different energies probably 201Tl and 99mTc). A peak search algorithm shall find the primary peaks of these two isotopes for every pixel and a gain and offset coefficient for each pixel shall be calculated and stored in an energy correction file.

3.10. DESIGN REQUIREMENT: PRS001 SECTION 6. It is critical that the system software performs four basic functions. These functions are Acquisition, Display, Data Transfer/Storage and Diagnostics. SECTION 6 B. The Diagnostic module will acquire data and generate a flood normalization.

3.10.1 SOFTWARE REQUIREMENTS
Redundant to 3.4!

3.11 DESIGN REQUIREMENT: PRS001 SECTION 6. It is critical that the system software performs four basic functions. These functions are Acquisition, Display, Data Transfer/Storage and Diagnostics. SECTION 6 C. The Diagnostic module will acquire data and perform intrinsic correction.

3.11.1 SOFTWARE REQUIREMENTS
The Intrinsic Correction module shall generate a file of coefficients that shall be used to normalize each active detector element's response to a user specified radiopharmaceutical. There shall be a minimum of four user-defined files. Using the selected radiopharmaceutical in a uniform flood source, each file shall be generated by collecting an uncorrected data file. The individual detector element's coefficient shall be generated by computing the ratio of each active detector element's response, to the mean value of all the active detector element's responses.

3.12 DESIGN REQUIREMENT: Not Stated in PRS00l

3.12.1 SOFTWARE REQUIREMENTS
The Detector Element Energy Spectrum module shall acquire and display an energy spectrum for any selected detector element(s), including bad detector elements. A detector element may be selected by: 1) pointing at the detector element on the display with the mouse pointer, 2) entering the detector element's spatial location as ari XIY spatial coordinate or by 3) entering the detector element's digital address. The energy spectrum display shall automatically scale the Y-axis (counts) so as to place the photopeak height at 75% of full scale. The X-axis shall be displayed in the energy units of keV. A composite energy spectrum of all active detector elements shall be possible. An active detector element is a detector element that is not listed in the bad detector element file.

3.13 DESIGN REQUIREMENT: Not Stated in PRS001

3.13.1 SOFTWARE REQUIREMENTS
The Bad Detector Element module shall be used with a uniform flood source to generate a file of detector elements that shall be excluded from use in the formation of an image.

The following describes the process that shall be used for determining a "bad detector element". The term "user" equals a technical service person.

Step One

Take a uniform flood data set without any corrections (energy, uniformity etc.), and record a histogram of energy for each detector element (i) (there shall be 4096 histograms). Within a user definable energy window ([W1, Wh]), find the energy peak Ei, and calculate the FWHM Si for each histogram. Display histograms of the Ei, and Si distributions. Make a cut of E1 and Si with a set of user definable windows ([E1, Eh], [Si, Sh]).

{If (Ei [E1, or Ei] Eh, or S1 [Si1 or Si] Sh,) then, (detector element "i" is added to bad detector element list)}.

Step Two

Take a flood data set, and record an energy corrected histogram for

each detector element. Within a user definable energy window ([W1, Wh]), calculate the gamma ray count Ni. Display a histogram of the Ni distribution, and calculated the MEAN and RMS of this distribution. Make cut of Ni with a set of user given window ([Ni, Nh]).

{If (Ni [N1, or Ni]Nh) then (detector element "i" is added to bad detector element list*)}

* Exclude bad detector elements already in the list from the Step One selection.

Step Three

Take a uniform flood data set with all the corrections, and let the user point and select any detector element from the displayed flood image. Display an energy histogram of the selected detector element. If the user desires, he can add this detector element to the bad detector element list. The user can also edit the bad detector element list to manually add or delete any detector element from the list. There should be a display option to mark each bad detector element within flood image. There should be a display to show the bad detector element list and total number of bad detector elements.

The bad detector elements shall be displayable only from the diagnostic display. This display shall be accessible only through a password and shall possibly run as a separate Task under NT. Bad detector elements shall be selectable either by pointing at them with the mouse, entering their XIY spatial coordinates or by entering their digital address.

EXHIBIT C
DELIVERY SCHEDULE

DELIVERIES

Calibration and Diagnostic Modules:	June 30, 1999
Validation Test Report:	21 days after calibration code
Code Revisions:	21 days after test

PAYMENT

Upon signing this Agreement, a sum of $***.

Upon delivery of the Acquisition Modules, a sum of $***.

Upon delivery of the Calibration & Diag. Modules, a sum of $***.

Upon delivery of the Validation Test Report, a sum of $***.

Upon Digirad's acceptance of all final code revisions, a sum of $***.

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EXHIBIT D
SEGAMI'S BASE SOFTWARE

PLANAR IMAGING:

Acquisition [not including PCI interface board and software]

User entry of patient information - name, MR #, age , etc. (see

database)
Multiple static images
Dynamic mode suitable for "flow studies" including first-pass RNV
Gated (ECG) blood pool
Byte & word mode in 64 x 64 to 512 x 512 pixels per frame
On screen zoomed persistence display - adjustable refresh time
Display previous images on screen while a new image is being acquired
Histogram of R-R wave intervals, beat rejection for gated RNV
Simultaneous acquisition of one study while processing a second study
Adjustment of display parameters - gray scale & color translation tables
Multi-peak, multi-isotope imaging
Uniformity (flood field) analysis & correction

2. Processing
Renal function: Renogram curves, ERPF, & GFR
Pulmonary quantitation
LVEF & RVEF calculation - gated blood pool
Regional ventricular function, e.g., phase & amplitude analysis
Gastric emptying & esophageal reflux
First-pass RNV - calculation of LV & RV ejection fraction
First-pass cardiac shunt calculation
Frames - move, copy, delete, format (for printing)
Perform math functions on image frames, e.g., spatial & temporal filters

3. Qutput/Archive/Other
A. File transfer via Ethernet link to network server in DICOM 3 compliant format
Additional bit-mapped (BMP) file format, for file transfer
Printer output drivers to common printers including PostScript
Storage on standard recording media, e.g., hard disk, R-CDROM, etc.
On-line, context sensitive help - index with references to specific instructions
Complete set of manuals
Documentation of governmental &/or other regulatory approval, U.S. or foreign

4. Database
SQL compatible Access database storage of patient information
Search features
DICOM 3 compliant fields

AMENDMENT TO THE DIGIRAD-SEGAMI SOFTWARE LICENSE AGREEMENT

This Amendment to the Digirad-Segami Software License Agreement ("Addendum"), is entered into under seal this 15TH day of NOV, 2001, by and between ") by and between Segami Corporation, a Maryland corporation having its principal offices at Segami Corporation 8335 Guilford Rd., Suite I, Columbia MD 21046 ("Segami"), and Digirad Corporation ("Digirad"), a Delaware corporation having its principal offices at 9350 Trade Place, San Diego, CA 92126.

Background

A. Digirad and Segami entered into a written contract on JUNE 16, 1999 (the "Agreement").
B. The Parties wish to amend the terms of the Agreement pursuant to paragraph 15 of the Agreement.
C. Digirad is licensing from Segami a modified version of Segami's Acquisition software, and Segami's current processing and display software, both known under the trade name Mirage.
D. Digirad desires to develop its own applications, related to acquisition or processing tasks, to run on the Mirage platform.

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. DEFINITION:

"Digirad Application": an application specified and developed by Digirad's engineers, with or without help from Segami, using the Mirage development platform, without modifying existing Mirage applications.

2. DELIVERABLES:

Segami shall deliver its standard version 5 development kit to Digirad, i.e. all .dll and .lib library files, with all associated .hpp headers,

some sample source code, plus the current documentation on the platform and its libraries, as is. There will be no support for Mirage version 4.

3. FEES.

For the duration of the current Agreement, Segami grants Digirad a non-exclusive license to the Mirage development environment, at no additional charge.

A one-week training session for 2 or 3 Digirad engineers in Segami's facilities will be offered at no charge (travel, lodging and meal expenses will be the responsibility of Digirad).

Segami's services to help Digirad develop its own applications are available to Digirad as part of the technical assistance covered under the current Agreement, at the same hourly rate, and without increasing the total guaranteed number of hours.

4. RESPONSIBILITY.

Segami shall assume no responsibility whatsoever for the applications developed by Digirad. Segami makes no guarantee that applications developed by Digirad using the version 5 development platform will work as intended with any other version of Mirage, or any other similar Segami product.

5. OWNERSHIP RIGHTS.

Segami shall retain all right title and interest in the libraries, including changes that Segami may make to the libraries at Digirad's request, and in the Mirage product in its entirety.

Digirad shall have all right, title and interest, in the applications that it develops.

6. INCORPORATION BY REFERENCE.

This Addendum shall be governed and interpreted as part of the Agreement and its general terms and conditions. If any conflict exists, or is determined by a court or arbitrator to exist, between the Agreement and this Addendum, the Agreement shall be controlling.

In witness whereof, the Parties have caused this Addendum to be executed under seal as of the date first above written.

ATTEST

/s/ ILLEGIBLE
- ----------
Secretary

Segami Corporation

By: /s/ PHILIPPE BRIANDET

Philippe Briandet, President

Digirad Corporation

- ----------
Secretary

By: /s/ ILLEGIBLE

EXHIBIT 10.3

*** CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT (INDICATED BY ASTERISKS) HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT UNDER 17 C.F.R. SECTIONS 200.80(B)(4), 200.83 AND 230.406.

LICENSE AGREEMENT

THIS LICENSE AGREEMENT ("Agreement") is made and entered into as of the *22* day of *May*, 2001, by and between CEDARS-SINAI HEALTH SYSTEM ("CSHS"), a d/b/a of CEDARS-SINAI MEDICAL CENTER, a California nonprofit public benefit corporation ("Medical Center"), and DIGIRAD CORPORATION, a Delaware corporation, ("Licensee"), with reference to the following facts:

A. CSHS has developed and is the owner of certain Technology (as such term is hereinafter defined) and has the right to grant licenses therein.

B. Licensee is desirous of obtaining from CSHS, and CSHS is willing to grant to Licensee, a non-exclusive license in and to the Technology and the Improvements (as such term is hereinafter defined) pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereby agree as follows:

1. Definitions. The following terms shall have the following meanings for purposes of this Agreement:

1.1 Affiliates. "Affiliates" shall mean, with respect to any person or entity, any other persons or entities that, directly or indirectly, control, are controlled by or are under common control with such person or entity. For this purpose, "control" of an entity shall include, without limitation, having ownership of fifty-one percent (51%) or more of the voting shares (or equivalent) of such entity, or having the right to direct, appoint or remove a majority or more of the members of the board of directors (or equivalent) of such entity, or having the power to control the general management of such entity, by contract, law or otherwise.

1.2 Confidential Information. "Confidential Information" shall mean the confidential and proprietary information of either party hereto.

1.3 CSHS Parties. "CSHS Parties" shall mean CSHS, the Medical Center and its officers, directors, employees, representatives and agents, and each of their respective successors and assigns.

1.4 End User. "End User" shall mean a customer of Licensee authorized to use a Licensed Product for internal purposes only and not for further distribution.

1.5 First Commercial Release Date. "First Commercial Release Date" shall mean the date upon which CSHS and Licensee have reasonably agreed that the functional performance of the Technology has met the Specifications and on which Licensee shall have released and made the Licensed Products available to End Users; provided, however, that the First Commercial Release Date shall occur on or before October 1, 2001.

1.6 Improvements. "Improvements" shall mean any computer software which includes all or any part of, or is based in whole or in part on, the Technology, including but not limited to translations of the Technology to other foreign or computer languages, adaptations of the Technology to other hardware platforms, abridgments, condensations and revisions to the Technology and software incorporating all or any part of the Technology which may also include modifications created by Licensee in order to meet good manufacturing practices and the standards of the United States Food and Drug Administration ("FDA").

1.7 Licensed Products. "Licensed Products" shall mean any and all products that incorporate or utilize or are manufactured using any of the Technology or the Improvements.

1.8 Licensed Field of Use. "Licensed Field of Use" shall mean *** *** *** .

1.9 New Products. "New Products" shall have the meaning set forth in Section 4 hereof.

1.10 Specifications. "Specifications" shall mean the specifications, performance standards and other descriptions of the Technology set forth on Exhibit A attached hereto.

1.11 Technology. "Technology" shall mean all computer programming code (in executable form only) and all related documentation and other written materials pertaining thereto relating to those portions of CSHS's software developed by CSHS and more fully described on Exhibit A attached hereto.

1.12 Territory. "Territory" shall mean *** *** .

1.13 Updates. "Updates" shall mean all updates, upgrades, revisions and new versions of the software code developed by CSHS which result from problem corrections of the Technology and Improvements to the Technology.

2. Grant of License.

2.1 Grant. CSHS hereby grants to Licensee a non-exclusive license (including the right, subject to Section 2.2 hereof, to grant sublicenses) in the Technology and the Improvements, subject to the other terms and conditions set forth in this Agreement for the purposes of making, having made, using and selling Licensed Products in the Territory. Without limiting the generality of the foregoing, the license granted hereby shall include the following rights: (a) the right to use, test, modify, reproduce and develop the Technology with any associated documentation, to prepare Improvements, to incorporate the Technology or any Improvement into Licensed Products and to otherwise develop Licensed Products; (b) the right to make, have made, reproduce, use, market and distribute Licensed Products to End Users, directly or indirectly, through Licensee's distributors and other distribution channels in the

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

Territory; and (c) the right to use the Technology or any Improvements in connection with maintenance services relating to Licensed Products.

2.2 Sublicenses. Licensee shall have the right to grant sublicenses of the license granted pursuant to Section 2.1 hereof only to its Affiliates of Licensee and to End Users, provided that each sublicensee must agree in writing to be bound by and to observe the provisions of Section 2.3, 6, 10, 11, 12.2 and 12.3 of this Agreement. Licensee shall submit to CSHS a copy of each sublicense entered into hereunder promptly after execution thereof. As used in this Section 2.2, the term "sublicense" shall include the right of an Affiliate of Licensee to distribute or sell Licensed Products to End Users, subject to the provisions of Section 3 hereof. However, the term "sublicense" as used in this Section 2.2 shall not permit any End User to copy, distribute or sell any Licensed Products to other third parties, which is strictly prohibited hereunder.

2.3 Limitations to Grant.

(a) Limited to Licensed Field of Use. The license granted under Section 2.1 hereof shall not be construed to confer any rights upon Licensee to any intellectual property not specifically included in this Agreement, whether by implication, estoppel or otherwise. The license granted under Section 2.1 hereof is limited to the Licensed Field of Use.

(b) Non-Exclusive License. The license granted under Section 2.1 hereof is, and shall be, non-exclusive, and CSHS expressly retains the right to grant other licenses relating to the Technology and any Improvements to any third party on such terms as CSHS may, in its sole and absolute discretion, deem appropriate. CSHS also retains the right to use the Technology and any Improvements for clinical and research purposes.

(c) No Modification or Decompilation. Licensee shall not modify, disassemble, decompile, reverse engineer, recreate or generate any of the Technology or any portion or version thereof. Licensee shall not attempt any of the foregoing or aid, abet or permit any others to do so (including, without limitation, any of its Affiliates or any End Users).

(d) Copy Protection. Licensee, in exercising it rights set forth in Section 2.1(b) hereof, shall take all actions as CSHS may reasonably request to ensure that its Affiliates and End Users do not (i) take any of the actions set forth in Section 2.3(c) hereof, or (ii) duplicate, copy or otherwise distribute any Licensed Products provided to them. Licensee shall submit to CSHS a copy of all documentation prepared by Licensee to meet its obligations under this Section 2.3(d), and Licensee shall provide CSHS with a written report every six (6) months during the term of this Agreement containing the identity of all Affiliates holding Licensed Products and End Users, details of all sales of Licensed Products to such Affiliates and End Users and such other information as shall be reasonably requested by CSHS.

(e) Limited Rights with Respect to Code; No Competing Products. The license granted under Section 2.1 hereof is limited to the use of the executable code of the Technology solely in connection with the development of Licensed Products and Improvements by Licensee, and the performance of maintenance services relating to Licensed

Products. Such license shall not include any right to transfer, license or otherwise dispose of the code of the Technology or any copies thereof, or to use such code to develop any software or products which are similar to or competitive with the Technology or any Improvements.

(f) Trademarks; Trade Names of CSHS and Medical Center. Nothing contained or construed to be contained in this Agreement shall constitute the grant by CSHS of any right, by way of license or otherwise, to Licensee to use any trademark or trade name of CSHS or the Medical Center without the prior written consent of CSHS or the Medical Center, which consent may be withheld by CSHS and the Medical Center in their sole and absolute discretion. All licenses relating to the Technology and Improvements conceived or first actually reduced to practice in the performance of experimental, developmental or research work funded in whole or in part by a United States governmental agency are subject to the rights, conditions and limitations imposed by the Patent and Trademark Amendments Act of 1980 (P.L. 96-517), as amended by Title V of P.L. 98-620 (1984), 35 U.S.C. §§200-212, and accordingly, the non-exclusive license granted hereunder may be held by the United States Government pursuant to 35 U.S.C. §202(c)(4). CSHS reserves the right in its sole and absolute discretion and without any consent from Licensee, to settle any interference involving the Technology and/or the Improvements by licensing the Technology and/or the Improvements, by filing a disclaimer or reissue application or in any other manner, and CSHS shall have the right to file with any appropriate governmental agency any agreement entered into in connection therewith.

3. Fees and Royalties. In consideration for the license granted by CSHS to Licensee pursuant to Section 2.1 hereof, Licensee shall pay to CSHS the fees and royalties set forth in Exhibit B attached hereto. The price established for the Licensed Product shall not exceed

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4. Updates. CSHS shall cause the Division of Nuclear Physics Medicine of the Medical Center to provide Licensee with all Updates developed during the term of this Agreement. Notwithstanding anything to contrary set forth herein, CSHS shall have no obligation to make available to Licensee any additional products which have no direct relationship to the Technology ("New Products"). Licensee shall not have any rights with respect to any New Products unless it has been granted the same by CSHS pursuant to a separate license agreement or an amendment to this Agreement, which separate license agreement or amendment shall contain such license fees, royalty payments and other terms regarding the New Products as may be negotiated by the parties.

5. Reports and Records.

5.1 Quarterly Earned Royalty Payment and Reports. Licensee shall provide CSHS with written reports and earned royalty payments within thirty (30) days after the end of each calendar quarter during the term of this Agreement. Each written report shall state the number and description of Licensed Products distributed during the preceding calendar quarter, and the resulting calculation of earned royalty payments due CSHS covered by such report, all in accordance with the provisions of Exhibit B attached hereto. Licensee shall provide such written reports whether or not any royalties are due to CSHS for the preceding calendar quarter.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

5.2 Retention of Records. Licensee shall keep and maintain complete and accurate records and documentation concerning sales or other dispositions of Licensed Products in sufficient detail to enable the royalties payable hereunder by Licensee to be determined, and Licensee shall retain such records and documentation for not less than five (5) years from the date of their creation.

5.3 Inspection of Records. During the tern of this Agreement and for a period of one (1) year thereafter, CSHS and its representatives and agents shall have the right, upon reasonable notice to Licensee and during regular business hours, to inspect the records and documentation required to be retained by Licensee pursuant to Section 5.2 hereof.

5.4 Costs of Inspection. The costs of any inspection pursuant to Section 5.3 hereof shall be borne by CSHS, unless as a result of such inspection it is determined that the amounts payable by Licensee to CSHS for any period are in error by greater than ten percent (10%), in which case the out-of-pocket costs of such inspection shall be borne by Licensee. CSHS shall report the results of any such inspection to Licensee, and Licensee shall promptly thereafter pay to CSHS the amount of any underpayment, and the amount of any overpayment shall be credited by CSHS against future amounts payable by Licensee to CSHS or if no future amounts are payable to CSHS within ninety (90) days of the report of the result of such inspection, then the amount of any overpayment shall be refunded to Licensee. In addition, Licensee shall pay interest on the amount of any such underpayment at a rate which is the lower of (a) two percent (2%) over the "prime rate" of interest as published in The Wall Street Journal from time to time, and (b) the highest rate permitted by applicable law, from the date such amount was underpaid to the date such payment is actually paid.

6. Title to the Technology; Marking; License to Copyright.

6.1 Title to the Technology. Licensee acknowledges that CSHS shall retain title to the Technology and all Improvements.

6.2 Marking. Licensee shall mark all Licensed Products (or their containers or labels) which are made, sold or otherwise disposed of by Licensee under the license granted pursuant to Section 2.1 hereof in such manner as is intended to protect or preserve CSHS's rights to the Technology and the Improvements as is customary in the market for the Licensed Products or in such a manner as CSHS may designate in writing to Licensee. Without limiting the generality of the foregoing, Licensee agrees that all copies of Licensed Products and related documentation made by Licensee pursuant to the license granted herein shall include a copyright notice in the following form: "© 2000 Cedars-Sinai Medical Center. All rights reserved." The copyright notice shall be affixed to all copies or portions thereof in such manner and location as to give reasonable notice to CSHS's claim of copyright.

6.3 License to Copyright and Patent (if any). The license granted under Section 2.1 hereof includes a license under CSHS's copyright in the Technology and any Improvement. In the event that the Technology or any Improvement becomes subject to or covered by, the allowed claims of any patent issued or assigned to CSHS, the license granted to Licensee hereunder shall be deemed to include a license under such patent to the extent necessary to permit Licensee to exercise its rights under this Agreement.

7. Delivery of Materials; Testing; Governmental Approvals.

7.1 Delivery of Materials. Upon the execution and delivery of this Agreement by Licensee, CSHS shall deliver to Licensee one (1) copy of any relevant documentation, the object code (in executable form only) for the Technology as it currently exists. CSHS and Licensee shall thereafter exchange updates and enhancements to the Technology no less frequently than once per calendar quarter until the Technology has conformed to the Specifications. Thereafter, CSHS shall provide Licensee with relevant documentation and object code updates for the Technology upon corrections or improvements of the Technology's performance characteristics. The material delivered by CSHS to Licensee under this Section 7.1 shall contain the object code for the Technology in an executable form only and suitable for installation and use by Licensee, and shall include the full set of material comprising the Technology and complete program maintenance documentation, including all flow charts, schematics and annotations which constitute the pre-coding detailed design specifications, test plan with results and all other materials necessary to allow a reasonably skilled computer programmer or analyst familiar with the Technology to maintain or support the Technology without the help of any other person or reference to any other material. CSHS shall promptly supplement the object code materials delivered to Licensee under this Section 7.1 with all changes or additions so that the object code materials correspond fully to the most current version of the Technology during the term of this Agreement.

7.2 Testing. CSHS and Licensee shall jointly (a) test all Technology and Improvements for proper operation, and (b) perform any debugging on Technology and Improvements, and (c) CSHS shall make or suggest any corrections necessary for Technology and Improvements to achieve performance in accordance with the Specifications and acceptable commercial standards.

7.3 Governmental Approvals. Notwithstanding anything to the contrary set forth herein, CSHS shall have no obligation to obtain any domestic or foreign governmental approvals (including, without limitation, any approvals of the FDA) with respect to the Technology, Improvements or Licensed Product. Licensee shall be responsible for seeking and obtaining any necessary domestic and foreign governmental approvals (including, without limitation, any and all approvals of the FDA) with respect to the Licensed Products as Licensee shall deem appropriate. The failure by Licensee to obtain any governmental approval shall not be deemed a breach by Licensee of this Agreement.

8. Support. CSHS shall cause the Division of Nuclear Physics Medicine of the Medical Center to assist Licensee with the evaluation, maintenance and support of Licensed Products during the term of this Agreement. Such assistance will be limited to work performed on the original Technology, upgrades, revisions and new versions of the software code, and providing debugging and technical support services. In the event that the Division is unable to provide the assistance which may be reasonably necessary to Licensee during the term hereof, CSHS shall have no obligation to provide such assistance, and representatives of CSHS and Licensee shall meet to discuss whether or not any modifications of the terms of this Agreement are necessary.

9. Milestones. Licensee shall have commenced marketing of the Licensed Products on or before the First Commercial Release Date. Further, Licensee shall satisfy the market demand for the Licensed Products during the term of this Agreement.

10. Compliance with Laws. Licensee shall conduct all activities pursuant to this Agreement in an ethical and businesslike manner and in substantial compliance with all applicable laws, rules and regulations of all applicable governmental authorities. Licensee shall provide to CSHS any data compilations, records, reports or other information regarding the Technology, the Improvements and/or the Licensed Products which CSHS may reasonably require for submission to any governmental authorities in order to comply with any applicable laws, rules or regulations.

11. Confidentiality.

11.1 Obligation. Each party acknowledges that this Agreement may require the disclosure by one party to the other party of its Confidential Information. Each party shall regard and preserve the Confidential Information of the other party as secret and confidential, and during the term of this Agreement and for a period of five (5) years thereafter neither party shall publish or disclose any Confidential Information in any manner without the prior written consent of the other party. Notwithstanding the foregoing, however, the parties agree that Licensee's obligation under this Section 11.1 with respect to the code for the Technology or any Improvement (to the extent they constitute "Confidential Information" hereunder) shall be unlimited in duration. Each party shall use the same level of care to prevent the disclosure of the Confidential Information of the other party that it exercises in protecting its own Confidential Information and shall, in any event, take all reasonable precautions to prevent the disclosure of Confidential Information to any third party.

11.2 Non-Confidential Information. The following shall not be considered to be Confidential Information: (a) information which is publicly known or which becomes publicly known through no fault of the receiving party; (b) information which is lawfully obtained by the receiving party from a third party (which third party itself lawfully obtained the Confidential Information and has no obligation of confidentiality); and (c) information which is in the lawful possession of the receiving party, as documented by the records of such receiving party, prior to such information having been initially disclosed by the disclosing party.

11.3 Publicity. Neither party shall, without the prior written consent of the other party, disclose to any third party the terms or conditions of this Agreement unless such disclosure is required under applicable law or in connection with the legal enforcement of this Agreement.

11.4 Injunctive Relief. Each party acknowledges that in the event of any breach or default or threatened breach or default by either party of Section 11.1 or Section 11.3 hereof, the other party may be irreparably damaged and that it would be extremely difficult and impractical to measure such damage, so that the remedy of damages at law would be inadequate. Consequently, each party acknowledges and agrees that other party, in addition to any other available rights or remedies and without the necessity of posting any bond or similar

security, shall be entitled to specific performance, injunctive relief and any other equitable remedy for the breach or default or threatened breach or default of said Section 11.1 or Section 11.3, and each party waives any defense that a remedy at law or damages is adequate.

12. Representations and Warranties; Limitation on Damages.

12.1 Authority. Each party represents and warrants to the other party that this Agreement has been duly authorized, executed and delivered by it and that this Agreement is its binding obligation, enforceable in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally, and to general equitable principles.

12.2 DISCLAIMER. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, CSHS MAKES NO REPRESENTATIONS OR WARRANTIES, EITHER EXPRESS OR IMPLIED (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR ANY EXPRESS OR IMPLIED WARRANTY THAT THE USE OF THE TECHNOLOGY OR THE MANUFACTURE, USE OR SALE OF ANY OF THE LICENSED PRODUCTS WILL NOT INFRINGE ANY PATENT, COPYRIGHT OR RIGHT OF ANY THIRD PARTY), OF ANY KIND OR NATURE WHATSOEVER.

12.3 LIMITATION ON DAMAGES. IN NO EVENT SHALL CSHS BE LIABLE FOR ANY LOSS OF OR DAMAGE TO REVENUES, PROFITS OR GOODWILL OR OTHER SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES OF ANY KIND RESULTING FROM CSHS'S PERFORMANCE OR FAILURE TO PERFORM ANY OBLIGATIONS UNDER THIS AGREEMENT, OR RESULTING FROM THE FURNISHING, PERFORMANCE, USE OR LOSS OF USE OF ANY PART OF THE TECHNOLOGY, IMPROVEMENTS LICENSED

PRODUCTS, OR ANY DATA, INFORMATION OR OTHER PROPERTY OF LICENSEE, INCLUDING, WITHOUT LIMITATION, ANY INTERRUPTION OF LICENSEE'S BUSINESS, WHETHER RESULTING FROM BREACH OF CONTRACT OR BREACH OF WARRANTY, EVEN IF LICENSOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

13. Indemnification and Insurance.

13.1 Indemnification. Licensee shall indemnify, defend and hold harmless the CSHS Parties from and against any and all claims, demands, lawsuits, actions, proceedings, liabilities, losses, damages, fees, costs and expenses (including, without limitation, attorneys' fees, and costs of investigation and experts (whether or not suit is filed)) resulting from or arising out of (a) the manufacture, use or sale of any of the Licensed Products or the exercise by Licensee of any right granted hereunder, including, without limitation, any liabilities, losses or damages whatsoever with respect to death or injury to any individual or damage to any property arising from the possession, use or operation of any of the Licensed Products by Licensee or any third party in any manner whatsoever (except to the extent such death, injury or

damage arises directly from the failure or malfunction of the Technology or Improvements used by Licensee in accordance with this Agreement), or (b) any claim that Licensee's manufacture, use, sale or other disposition of the Licensed Products infringes or violates any patent, copyright or other right of any third party, except to the extent such alleged infringement or violation relates solely to the Technology or Improvements.

13.2 Insurance. Licensee shall maintain at all times during and after the term of this Agreement comprehensive general liability insurance, including product liability insurance, with reputable and financially secure insurance carriers and having commercially reasonable limits giving due consideration to the nature and extent of such activities and the risks inherent therein to cover the activities of Licensee contemplated by this Agreement. Any such insurance shall provide for no cancellation or material alteration except upon at least thirty (30) days' prior written notice to CSHS. Licensee shall timely provide CSHS with certificates of insurance evidencing such coverage.

14. Infringement.

14.1 Third Party Infringement. In the event that either party learns of facts which it concludes may constitute an infringement of any of the Technology or any Improvements by any third party during the term of this Agreement, the party learning of such facts shall promptly notify the other party in writing, setting forth such facts and the basis for its conclusion, and shall include with such notice any other reasonably available evidence in support thereof.

14.2 Procedure. CSHS shall have the right, but no the obligation, to take all appropriate action against the infringing party and CSHS shall pay all costs and expenses (including without limitation CSHS's attorneys' fees and costs of investigation and experts) incurred in connection with such action. Licensee, at its own expense, shall have the right to participate in, and, to the extent that it may wish, to jointly assume the prosecution of such action with counsel reasonably satisfactory to CSHS. If CSHS declines to take action, then Licensee shall have the right to take such action. In the event Licensee does elect to take action, Licensee shall pay or reimburse CSHS for all costs and expenses (including without limitation attorneys' fees and costs of investigation and experts) incurred by CSHS at either Licensee's request or as may be required in order for Licensee to pursue such action. Licensee shall obtain the consent of CSHS prior to settling any such action.

14.3 Proceeds. Any proceeds from any settlement or judgment of any infringement claim, action, suit or proceeding brought by CSHS shall be allocated and/or paid within thirty (30) days of receipt thereof as follows: (a) first to reimburse CSHS (and Licensee, pari passu to the extent that it has not otherwise been reimbursed for attorneys' fees, costs and expenses incurred in connection with participation in the prosecution of such infringement) for attorneys' fees and other costs and expenses reasonably incurred in connection with the prosecution or other efforts to terminate the infringement pursuant to the terms of this Agreement; and (b) thereafter, the remainder shall be divided equally between the parties.

14.4 Nominal Plaintiff. In the event any infringement action, suit or proceeding is brought hereunder by either party to enforce any rights in the Technology in the Territory, each party shall upon the written request of the other party, be named, joined and participate therein as a nominal plaintiff.

14.5 Indemnification. CSHS shall indemnify, defend and hold harmless Licensee from and against any and all claims, demands lawsuits, actions, proceedings, liabilities, losses, damages, fees, costs and expenses (including, without limitation, attorneys' fees, and costs of investigation and experts (whether or not suit is filed)) resulting from or arising out of any claim that Licensee's use of the Technology or Improvements in accordance with this Agreement infringes or violates any patent, copyright or other intellectual property rights of any third party.

15. Term. This Agreement shall become effective on the date first above written and shall remain in effect until the later of (a) five (5) years after such date, or (b) the expiration date of the last to expire of any patents (if any) included in the Technology, unless sooner terminated pursuant to Section 17.1 hereof.

16. Termination.

16.1 Termination for Impossibility or Breach. This Agreement may be terminated at any time at the option of either party if action by any governmental authority renders impossible performance under this Agreement by either party. In addition, this Agreement may be terminated by either party if the other party breaches any material provision hereof (including without limitation any provision requiring payment by Licensee to CSHS), provided that termination may only take place if (a) the claiming party has given the breaching party written notice specifying the respects in which the

claiming party claims this Agreement has been breached and (b) the breaching party fails to remedy such breach within thirty (30) days after receiving such notice.

16.2 Effect of Termination or Expiration. Upon the termination or expiration of the term of this Agreement, the license granted by CSHS to Licensee pursuant to Section 2.1 hereof shall terminate. Notwithstanding any termination or expiration of the term of this Agreement, Licensee shall be permitted to sell or otherwise dispose of all Licensed Products then in inventory and shall have the obligation to pay to CSHS all amounts which have accrued or shall accrue by reason of the sale of such Licensed Products. Licensee shall not be entitled to any refund of any amounts by reason of any termination or expiration of the term of this Agreement. Notwithstanding anything to the contrary set forth in this Agreement, in no event shall any rights afforded to End Users pursuant to Section 2.1(b) terminate as a result of expiration or termination of this Agreement for any reason.

17. Assignment. The rights and obligations of Licensee under this Agreement shall not be assignable without the prior written consent of CSHS (which consent may be granted or withheld by CSHS in its sole and absolute discretion) except in the event of a merger, consolidation or sale of substantially all of the assets of Licensee. In the event of any such merger, consolidation or sale of assets, CSHS shall have the right to approve or disapprove, on a reasonable basis, the use of any Licensed Products by the person or entity which is the successor-in-interest to Licensee. The rights and obligations of CSHS hereunder shall be assignable without the prior written consent of Licensee, upon written notice to Licensee.

18. Notice. Any notice or other communication hereunder must be given in writing and either (a) delivered in person, (b) transmitted by facsimile or telecopy mechanism provided that any notice so given is also mailed as provided herein, (c) delivered by Federal Express® or similar commercial delivery service or (d) mailed by certified mail, postage prepaid, return receipt requested, to the party to which such notice or communication is to be given at the address set forth on the signature page of this Agreement or to such other address or to such other person as either party shall have last designated by such notice to the other party. Each such notice or other communication shall be effective (i) when personally delivered, (ii) if given by telecommunication, when transmitted, (iii) if given by mail, seven (7) days after such communication is deposited in the mail and addressed as aforesaid, (iv) if given by Federal Express® or similar commercial delivery service, three (3) business days after such communication is deposited with such service using next business day delivery and addressed as aforesaid, and (v) if given by any other means, when actually delivered at such address.

19. Arbitration. Any disagreement or any question of determination of terms, interpretation, enforceability or validity arising under or relating to the provisions of this Agreement or the subject matter hereof shall be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (“AAA”) and such arbitration shall be held in Los Angeles, California. The arbitrability of any such disagreement or question of determination shall likewise be subject to arbitration. The parties shall use their best efforts to cause any such arbitration to be completed as quickly as possible. The parties shall equally share the costs of the arbitrator(s), transcripts and any official translator(s). Any order, award or decision resulting from any such arbitration shall be final and binding upon the parties and shall be enforceable in any court of competent jurisdiction.

20. Governing Law. This Agreement and the legal relations between the parties shall be governed by and construed in accordance with the laws of the State of California, except where such are governed exclusively by federal law.

21. Attorneys’ Fees. In any arbitration or action between the parties seeking enforcement of any of the provisions of this Agreement, the prevailing party in such arbitration or action shall be awarded, in addition to damages, injunctive or other relief, its reasonable costs and expenses, not limited to taxable costs, and reasonable attorneys’ fees.

22. Relationship of Parties. Each party shall conduct all business in its own name as an independent contractor. No joint venture, partnership, employment, agency or similar arrangement is created between the parties. Neither party has the right or power to act for

or on behalf of the other or to bind the other in any respect, to pledge its credit, to accept any service of process upon it, or to receive any notices of any nature whatsoever on its behalf.

23. Severability. If any provision of this Agreement is determined to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction then, to that extent and within the jurisdiction in which it is illegal, invalid or unenforceable, it shall be limited, construed or severed and deleted from this Agreement, and the remaining extent and/or remaining portions hereof shall survive, remain in full force and effect and continue to be binding and shall not be affected except insofar as may be necessary to make sense hereof, and shall be interpreted to give effect to the intention of the parties insofar as that is possible.

24. Entire Agreement. This Agreement (including all exhibits attached hereto which are herein incorporated by this reference) contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all previous negotiations, agreements, arrangements and understandings with respect to the subject matter hereof.

25. Interpretation. The normal rule of construction that an agreement shall be interpreted against the drafting party shall not apply to this Agreement. In this Agreement, whenever the context so requires, the masculine, feminine or neuter gender, and the singular or plural number or tense, shall include the others.

26. Amendment and Waiver. Neither this Agreement nor any of its provisions may be amended, changed, modified or waived except in a writing duly executed by an authorized officer of the party to be bound thereby.

27. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective legal representatives, successors and permitted assigns.

28. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, and such counterparts together shall constitute one agreement.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands as of the day and year first above written.

"CSHS":

CEDARS-SINAI HEALTH SYSTEM
Cedars-Sinai Medical Center
8700 Beverly Boulevard
Los Angeles, CA 90048-1865
Attn: Senior Vice President & CFO
Facsimile: (310) 423-0101

By: */s/ Schlomo Melmed, M.D.*
Shlomo Melmed, M.D.
Senior Vice President for
Academic Affairs

By: */s/ Edward M. Prunchunas*
Edward M. Prunchunas
Senior Vice President for
Finance & CFO

"LICENSEE":

DIGIRAD, INC.

9350 Trade Place
San Diego, California 92126-6334
Attn: President & CEO
Facsimile: (858) 549-9789

By: */s/ R. Scott Huennekens*
R. Scott Huennekens
Digirad Corporation

TECHNOLOGY AND SPECIFICATIONS

1. Technology.

General Description: All information, data and know-how, whether patentable or unpatentable, in whatever form or medium, relating to those portions of CSHS's software technologies known as: ***
***
***

2. Specifications.
[to be attached]

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

EXHIBIT A

FEES, ROYALTIES AND PAYMENT

1. Royalties. Licensee shall pay to CSHS royalties in the amounts set forth in the following table for each of the Licensed Products sold or otherwise distributed by Licensee during the term of the Agreement. Royalties shall accrue and be payable on a quarterly basis within thirty (30) days after the end of each calendar quarter in which a sale of Licensed Products occurs. (For the purposes of this section, the word "sale" shall mean the date on which the Licensee ships the Licensed Product to the particular End User.)

Royalties for individual software packages within Technology shall be as follows:

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Amount of Royalty per Copy
***

***

Amount of Royalty per Copy
***

***

Amount of Royalty per Copy
***

Licensee shall be responsible for all royalties due hereunder with respect to sales or other dispositions of Licensed Products to its Affiliates. Each payment of royalties pursuant hereto shall be accompanied by a statement setting forth (a) the number of Licensed Products sold, and (b) such additional details as may be necessary for the calculation of the royalty payment.

2. Payments. All payments by Licensee to CSHS shall be made in United States Dollars by check and shall be without set-off and free and clear of and without any deduction or withholding for or on account of any taxes, duties, levies, imposts or similar fees or charges. If any restrictions on the transfer of currency exist in any country or other jurisdiction so as to prevent Licensee from making payments to CSHS in the United States, Licensee shall take all reasonable steps to obtain a waiver of such restrictions or otherwise enable Licensee to make such payments, and if Licensee is unable to do so, Licensee shall make such payments to CSHS to a bank account or other depository designated by CSHS in such country or jurisdiction, which payments shall be in the local currency of such country or jurisdiction unless payment in United States Dollars is permitted. Any payment by Licensee to CSHS on the basis of sales of Licensed Products in currencies other than Untied States Dollars shall be calculated using the appropriate foreign exchange rate for such currency quoted in *The Wall Street Journal* for the close of business of the last banking day of the calendar quarter for which such payment is being made.

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EXHIBIT B

FEES, ROYALTIES AND PAYMENT

3. Minimum Royalties. Licensee agrees to pay for a minimum of *** copies (***) for *** software and the same minimum number of *** software licensed hereunder during the first year of the Agreement and *** (***) licenses for *** software and the same minimum number of *** software licensed hereunder for each year thereafter during the term of the Agreement. (There is no minimum requirement for *** software.) During the term of the Agreement, Licensee shall pay to CSHS a minimum royalty ("Minimum Royalty") for both the *** and *** software technologies within thirty (30) days of the end of each calendar quarter. During the first year after the First Commercial Release Date, the Minimum Royalty payable from and after that date shall be *** Dollars ($***) per calendar quarter for the *** software and the same amount for the *** software for a total of *** Dollars ($***). The Minimum Royalty payable one year after the First Commercial Release Date shall be *** Dollars ($***) per calendar quarter for the *** software and the same amount for the *** software for a total of *** Dollars ($***). Each payment of the Minimum Royalty for each of the two referenced software technologies shall be credited on an ongoing basis against royalties payable for each particular software technology pursuant to Paragraph 2 hereof Accordingly, no royalty shall be payable for a particular software technology *(e.g.*, *** and/or *** as the case may be) pursuant to Paragraph 2 hereof with respect to any particular calendar quarter for that software technology unless the aggregate amount of all royalties pursuant to Paragraph 2 hereof for that software technology through and including such calendar quarter exceeds the aggregate amount of all Minimum Royalty payments theretofore made for that particular software technology plus the Minimum Royalty payment for that software technology in such calendar quarter. Sales of *** shall not be credited towards the minimum required sales of *** and vice versa.

4. Late Payments. Any amount payable by Licensee to CSHS which is not paid within thirty (30) days of the invoice date shall bear interest at the rate which is the lower of (i) two percent (2%) over the rate of interest published in *The Wall Street Journal* as the "prime rate" as such "prime rate" is in effect from time to time or (ii) the highest rate permitted by applicable law, from the date such amount was due to the date such amount is paid. Neither the foregoing obligation to pay interest nor the acceptance of such interest shall in any way constitute any limitation or waiver of any of the rights or remedies of CSHS resulting from the failure of Licensee to pay in a timely manner any amount payable by Licensee to CSHS.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

EXHIBIT 10.4

*** CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT (INDICATED BY ASTERISKS) HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT UNDER 17 C.F.R. SECTIONS 200.80(B)(4), 200.83 AND 230.406.

LICENSE AGREEMENT

THIS LICENSE AGREEMENT ("Agreement") is made and entered into as of the *1st* day of *April*, 2003, by and between CEDARS-SINAI HEALTH SYSTEM ("CSHS"), a d/b/a of CEDARS-SINAI MEDICAL CENTER, a California nonprofit public benefit corporation ("Medical Center"), and DIGIRAD CORPORATION, a Delaware corporation, ("Licensee"), with reference to the following facts:

A. CSHS has developed and is the owner of certain Technology (as such term is hereinafter defined) and has the right to grant licenses therein.

B. Licensee is desirous of obtaining from CSHS, and CSHS is willing to grant to Licensee, a non-exclusive license in and to the Technology and the Improvements (as such term is hereinafter defined) pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the promises and the mutual covenants contained herein, the parties hereby agree as follows:

1. Definitions. The following terms shall have the following meanings for purposes of this Agreement:

1.1 Affiliates. "Affiliates" shall mean, with respect to any person or entity, any other persons or entities that, directly or indirectly, control, are controlled by or are under common control with such person or entity. For this purpose, "control" of an entity shall include, without limitation, having ownership of fifty-one percent (51%) or more of the voting shares (or equivalent) of such entity, or having the right to direct, appoint or remove a majority or more of the members of the board of directors (or equivalent) of such entity, or having the power to control the general management of such entity, by contract, law or otherwise.

1.2 Confidential Information. "Confidential Information" shall mean the confidential and proprietary information of either party hereto.

1.3 CSHS Parties. "CSHS Parties" shall mean CSHS, the Medical Center and its officers, directors, employees, representatives and agents, and each of their respective successors and assigns.

1.4 End User. "End User" shall mean a customer of Licensee authorized to use a Licensed Product for internal purposes only and not for further distribution.

1.5 First Commercial Release Date. "First Commercial Release Date" shall mean the date upon which CSHS and Licensee have reasonably agreed that the functional performance of the Technology has met the Specifications and on which Licensee shall have released and made the Licensed Products available to End Users; provided, however, that the First Commercial Release Date shall occur on or before February 1, 2003.

1.6 Improvements. "Improvements" shall mean any computer software which includes all or any part of, or is based in whole or in part on, the Technology, including but not limited to translations of the Technology to other foreign or computer languages, adaptations of the Technology to other hardware platforms, abridgments, condensations and revisions to the Technology and software incorporating all or any part of the Technology which may also include modifications created by Licensee in order to meet good manufacturing practices and the standards of the United States Food and Drug Administration ("FDA").

1.7 Licensed Products. "Licensed Products" shall mean any and all products that incorporate or utilize or are manufactured using any of the Technology or the Improvements.

1.8 Licensed Field of Use. "Licensed Field of Use" shall mean ***

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1.9 New Products. "New Products" shall have the meaning set forth in Section 4 hereof.

1.10 Specifications. "Specifications" shall mean the specifications, performance standards and other descriptions of the Technology set forth on Exhibit A attached hereto.

1.11 Technology. "Technology" shall mean all computer programming code (in executable form only) and all related documentation and other written materials pertaining thereto relating to those portions of CSHS's software developed by CSHS and more fully described on Exhibit A attached hereto.

1.12 Territory. "Territory" shall mean ***

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1.13 Updates. "Updates" shall mean all updates, upgrades, revisions and new versions of the software code developed by CSHS which result from problem corrections of the Technology and Improvements to the Technology.

2. Grant of License.

2.1 Grant. CSHS hereby grants to Licensee a non-exclusive license (including the right, subject to Section 2.2 hereof, to grant sublicenses) in the Technology and the Improvements, subject to the other terms and conditions set forth in this Agreement for the purposes of making, having made, using and selling Licensed Products in the Territory. Without limiting the generality of the foregoing, the license granted hereby shall include the following rights: (a) the right to use, test, modify, reproduce and develop the Technology with any associated documentation, to prepare Improvements, to incorporate the Technology or any Improvement into Licensed Products and to otherwise develop Licensed Products; (b) the right to make, have made, reproduce, use, market and distribute Licensed Products to End Users, directly or indirectly, through Licensee's distributors and other distribution channels in the

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Territory; and (c) the right to use the Technology or any Improvements in connection with maintenance services relating to Licensed Products.

2.2 Sublicenses. Licensee shall have the right to grant sublicenses of the license granted pursuant to Section 2.1 hereof only to its Affiliates of Licensee and to End Users, provided that each sublicensee must agree in writing to be bound by and to observe the provisions of Section 2.3, 6, 10, 11, 12.2 and 12.3 of this Agreement. Licensee shall submit to CSHS a copy of each sublicense entered into hereunder promptly after execution thereof. As used in this Section 2.2, the term "sublicense" shall include the right of an Affiliate of Licensee to distribute or sell Licensed Products to End Users, subject to the provisions of Section 3 hereof. However, the term "sublicense" as used in this Section 2.2 shall not permit any End User to copy, distribute or sell any Licensed Products to other third parties, which is strictly prohibited hereunder.

2.3 Limitations to Grant.

(a) Limited to Licensed Field of Use. The license granted under Section 2.1 hereof shall not be construed to confer any rights upon Licensee to any intellectual property not specifically included in this Agreement, whether by implication, estoppel or otherwise. The license granted under Section 2.1 hereof is limited to the Licensed Field of Use.

(b) Non-Exclusive License. The license granted under Section 2.1 hereof is, and shall be, non-exclusive, and CSHS expressly retains the right to grant other licenses relating to the Technology and any Improvements to any third party on such terms as CSHS may, in its sole and absolute discretion, deem appropriate. CSHS also retains the right to use the Technology and any Improvements for clinical and research purposes.

(c) No Modification or Decompilation. Licensee shall not modify, disassemble, decompile, reverse engineer, recreate or generate any of the Technology or any portion or version thereof. Licensee shall not attempt any of the foregoing or aid, abet or permit any others to do so (including, without limitation, any of its Affiliates or any End Users).

(d) Copy Protection. Licensee, in exercising it rights set forth in Section 2.1(b) hereof, shall take all actions as CSHS may reasonably request to ensure that its Affiliates and End Users do not (i) take any of the actions set forth in Section 2.3(c) hereof, or (ii) duplicate, copy or otherwise distribute any Licensed Products provided to them. Licensee shall submit to CSHS a copy of all documentation prepared by Licensee to meet its obligations under this Section 2.3(d), and Licensee shall provide CSHS with a written report every six (6) months during the term of this Agreement containing the identity of all Affiliates holding Licensed Products and End Users, details of all sales of Licensed Products to such Affiliates and End Users and such other information as shall be reasonably requested by CSHS.

(e) Limited Rights with Respect to Code; No Competing Products. The license granted under Section 2.1 hereof is limited to the use of the executable code of the Technology solely in connection with the development of Licensed Products and Improvements by Licensee, and the performance of maintenance services relating to Licensed

Products. Such license shall not include any right to transfer, license or otherwise dispose of the code of the Technology or any copies thereof, or to use such code to develop any software or products which are similar to or competitive with the Technology or any Improvements.

(f) Trademarks; Trade Names of CSHS and Medical Center. Nothing contained or construed to be contained in this Agreement shall constitute the grant by CSHS of any right, by way of license or otherwise, to Licensee to use any trademark or trade name of CSHS or the Medical Center without the prior written consent of CSHS or the Medical Center, which consent may be withheld by CSHS and the Medical Center in their sole and absolute discretion. All licenses relating to the Technology and Improvements conceived or first actually reduced to practice in the performance of experimental, developmental or research work funded in whole or in part by a United States governmental agency are subject to the rights, conditions and limitations imposed by the Patent and Trademark Amendments Act of 1980 (P.L. 96-517), as amended by Title V of P.L. 98-620 (1984), 35 U.S.C. §§200-212, and accordingly, the non-exclusive license granted hereunder may be held by the United States Government pursuant to 35 U.S.C. §202(c)(4). CSHS reserves the right in its sole and absolute discretion and without any consent from Licensee, to settle any interference involving the Technology and/or the Improvements by licensing the Technology and/or the Improvements, by filing a disclaimer or reissue application or in any other manner, and CSHS shall have the right to file with any appropriate governmental agency any agreement entered into in connection therewith.

3. Fees and Royalties. In consideration for the license granted by CSHS to Licensee pursuant to Section 2.1 hereof, Licensee shall pay to CSHS the fees and royalties set forth in Exhibit B attached hereto. The price established for the Licensed Product shall not exceed
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4. Updates. CSHS shall cause the Division of Nuclear Physics Medicine of the Medical Center to provide Licensee with all Updates developed during the term of this Agreement. Notwithstanding anything to contrary set forth herein, CSHS shall have no obligation to make available to Licensee any additional products which have no direct relationship to the Technology ("New Products"). Licensee shall not have any rights with respect to any New Products unless it has been granted the same by CSHS pursuant to a separate license agreement or an amendment to this Agreement, which separate license agreement or amendment shall contain such license fees, royalty payments and other terms regarding the New Products as may be negotiated by the parties.

5. Reports and Records.

5.1 Quarterly Earned Royalty Payment and Reports. Licensee shall provide CSHS with written reports and earned royalty payments within thirty (30) days after the end of each calendar quarter during the term of this Agreement. Each written report shall state the number and description of Licensed Products distributed during the preceding calendar quarter, and the resulting calculation of earned royalty payments due CSHS covered by such report, all in accordance with the provisions of Exhibit B attached hereto. Licensee shall provide such written reports whether or not any royalties are due to CSHS for the preceding calendar quarter.

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5.2 Retention of Records. Licensee shall keep and maintain complete and accurate records and documentation concerning sales or other dispositions of Licensed Products in sufficient detail to enable the royalties payable hereunder by Licensee to be determined, and Licensee shall retain such records and documentation for not less than five (5) years from the date of their creation.

5.3 Inspection of Records. During the term of this Agreement and for a period of one (1) year thereafter, CSHS and its representatives and agents shall have the right, upon reasonable notice to Licensee and during regular business hours, to inspect the records and documentation required to be retained by Licensee pursuant to Section 5.2 hereof.

5.4 Costs of Inspection. The costs of any inspection pursuant to Section 5.3 hereof shall be borne by CSHS, unless as a result of such inspection it is determined that the amounts payable by Licensee to CSHS for any period are in error by greater than ten percent (10%), in which case the out-of-pocket costs of such inspection shall be borne by Licensee. CSHS shall report the results of any such inspection to Licensee, and Licensee shall promptly thereafter pay to CSHS the amount of any underpayment, and the amount of any overpayment shall be credited by CSHS against future amounts payable by Licensee to CSHS or if no future amounts are payable to CSHS within ninety (90) days of the report of the result of such inspection, then the amount of any overpayment shall be refunded to Licensee. In addition, Licensee shall pay interest on the amount of any such underpayment at a rate which is the lower of (a) two percent (2%) over the "prime rate" of interest as published in *The Wall Street Journal* from time to time, and (b) the highest rate permitted by applicable law, from the date such amount was underpaid to the date such payment is actually paid.

6. Title to the Technology; Marking; License to Copyright.

6.1 Title to the Technology. Licensee acknowledges that CSHS shall retain title to the Technology and all Improvements.

6.2 Marking. Licensee shall mark all Licensed Products (or their containers or labels) which are made, sold or otherwise disposed of by Licensee under the license granted pursuant to Section 2.1 hereof in such manner as is intended to protect or preserve CSHS's rights to the Technology and the Improvements as is customary in the market for the Licensed Products or in such a manner as CSHS may designate in writing to Licensee. Without limiting the generality of the foregoing, Licensee agrees that all copies of Licensed Products and related documentation made by Licensee pursuant to the license granted herein shall include a copyright notice in the following form: "© 2002 Cedars-Sinai Medical Center. All rights reserved." The copyright notice shall be affixed to all copies or portions thereof in such manner and location as to give reasonable notice to CSHS's claim of copyright.

6.3 License to Copyright and Patent (if any). The license granted under Section 2.1 hereof includes a license under CSHS's copyright in the Technology and any Improvement. In the event that the Technology or any Improvement becomes subject to or covered by, the allowed claims of any patent issued or assigned to CSHS, the license granted to Licensee hereunder shall be deemed to include a license under such patent to the extent necessary to permit Licensee to exercise its rights under this Agreement.

7. Delivery of Materials; Testing; Governmental Approvals.

7.1 Delivery of Materials. Upon the execution and delivery of this Agreement by Licensee, CSHS shall deliver to Licensee one (1) copy of any relevant documentation, the object code (in executable form only) for the Technology as it currently exists. CSHS and Licensee shall thereafter exchange updates and enhancements to the Technology no less frequently than once per calendar quarter until the Technology has conformed to the Specifications. Thereafter, CSHS shall provide Licensee with relevant documentation and object code updates for the Technology upon corrections or improvements of the Technology's performance characteristics. The material delivered by CSHS to Licensee under this Section 7.1 shall contain the object code for the Technology in an executable form only and suitable for installation and use by Licensee, and shall include the full set of material comprising the Technology and complete program maintenance documentation, including all flow charts, schematics and annotations which constitute the pre-coding detailed design specifications, test plan with results and all other materials necessary to allow a reasonably skilled computer programmer or analyst familiar with the Technology to maintain or support the Technology without the help of any other person or reference to any other material. CSHS shall promptly supplement the object code materials delivered to Licensee under this Section 7.1 with all changes or additions so that the object code materials correspond fully to the most current version of the Technology during the term of this Agreement.

7.2 Testing. CSHS and Licensee shall jointly (a) test all Technology and Improvements for proper operation, and (b) perform any debugging on Technology and Improvements, and (c) CSHS shall make or suggest any corrections necessary for Technology and Improvements to achieve performance in accordance with the Specifications and acceptable commercial standards.

7.3 Governmental Approvals. Notwithstanding anything to the contrary set forth herein, CSHS shall have no obligation to obtain any domestic or foreign governmental approvals (including, without limitation, any approvals of the FDA) with respect to the Technology, Improvements or Licensed Product. Licensee shall be responsible for seeking and obtaining any necessary domestic and foreign governmental approvals (including, without limitation, any and all approvals of the FDA) with respect to the Licensed Products as Licensee shall deem appropriate. The failure by Licensee to obtain any governmental approval shall not be deemed a breach by Licensee of this Agreement.

8. Support. CSHS shall cause the Division of Nuclear Physics Medicine of the Medical Center to assist Licensee with the evaluation, maintenance and support of Licensed Products during the term of this Agreement. Such assistance will be limited to work performed on the original Technology, upgrades, revisions and new versions of the software code, and providing debugging and technical support services. In the event that the Division is unable to provide the assistance which may be reasonably necessary to Licensee during the term hereof, CSHS shall have no obligation to provide such assistance, and representatives of CSHS and Licensee shall meet to discuss whether or not any modifications of the terms of this Agreement are necessary.

9. Milestones. Licensee shall have commenced marketing of the Licensed Products on or before the First Commercial Release Date. Further, Licensee shall satisfy the market demand for the Licensed Products during the term of this Agreement.

10. Compliance with Laws. Licensee shall conduct all activities pursuant to this Agreement in an ethical and businesslike manner and in substantial compliance with all applicable laws, rules and regulations of all applicable governmental authorities. Licensee shall provide to CSHS any data compilations, records, reports or other information regarding the Technology, the Improvements and/or the Licensed Products which CSHS may reasonably require for submission to any governmental authorities in order to comply with any applicable laws, rules or regulations.

11. Confidentiality.

11.1 Obligation. Each party acknowledges that this Agreement may require the disclosure by one party to the other party of its Confidential Information. Each party shall regard and preserve the Confidential Information of the other party as secret and confidential, and during the term of this Agreement and for a period of five (5) years thereafter neither party shall publish or disclose any Confidential Information in any manner without the prior written consent of the other party. Notwithstanding the foregoing, however, the parties agree that Licensee's obligation under this Section 11.1 with respect to the code for the Technology or any Improvement (to the extent they constitute "Confidential Information" hereunder) shall be unlimited in duration. Each party shall use the same level of care to prevent the disclosure of the Confidential Information of the other party that it exercises in protecting its own Confidential Information and shall, in any event, take all reasonable precautions to prevent the disclosure of Confidential Information to any third party.

11.2 Non-Confidential Information. The following shall not be considered to be Confidential Information: (a) information which is publicly known or which becomes publicly known through no fault of the receiving party; (b) information which is lawfully obtained by the receiving party from a third party (which third party itself lawfully obtained the Confidential Information and has no obligation of confidentiality); and (c) information which is in the lawful possession of the receiving party, as documented by the records of such receiving party, prior to such information having been initially disclosed by the disclosing party.

11.3 Publicity. Neither party shall, without the prior written consent of the other party, disclose to any third party the terms or conditions of this Agreement unless such disclosure is required under applicable law or in connection with the legal enforcement of this Agreement.

11.4 Injunctive Relief. Each party acknowledges that in the event of any breach or default or threatened breach or default by either party of Section 11.1 or Section 11.3 hereof, the other party may be irreparably damaged and that it would be extremely difficult and impractical to measure such damage, so that the remedy of damages at law would be inadequate. Consequently, each party acknowledges and agrees that other party, in addition to any other available rights or remedies and without the necessity of posting any bond or similar

security, shall be entitled to specific performance, injunctive relief and any other equitable remedy for the breach or default or threatened breach or default of said Section 11.1 or Section 11.3, and each party waives any defense that a remedy at law or damages is adequate.

12. Representations and Warranties; Limitation on Damages.

12.1 Authority. Each party represents and warrants to the other party that this Agreement has been duly authorized, executed and delivered by it and that this Agreement is its binding obligation, enforceable in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally, and to general equitable principles.

12.2 DISCLAIMER. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, CSHS MAKES NO REPRESENTATIONS OR WARRANTIES, EITHER EXPRESS OR IMPLIED (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR ANY EXPRESS OR IMPLIED WARRANTY THAT THE USE OF THE TECHNOLOGY OR THE MANUFACTURE, USE OR SALE OF ANY OF THE LICENSED PRODUCTS WILL NOT INFRINGE ANY PATENT, COPYRIGHT OR RIGHT OF ANY THIRD PARTY), OF ANY KIND OR NATURE WHATSOEVER.

12.3 LIMITATION ON DAMAGES. IN NO EVENT SHALL CSHS BE LIABLE FOR ANY LOSS OF OR DAMAGE TO REVENUES, PROFITS OR GOODWILL OR OTHER SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES OF ANY KIND RESULTING FROM CSHS'S PERFORMANCE OR FAILURE TO PERFORM ANY OBLIGATIONS UNDER THIS AGREEMENT, OR RESULTING FROM THE FURNISHING, PERFORMANCE, USE OR LOSS OF USE OF ANY PART OF THE TECHNOLOGY, IMPROVEMENTS LICENSED PRODUCTS, OR ANY DATA, INFORMATION OR OTHER PROPERTY OF LICENSEE, INCLUDING, WITHOUT LIMITATION, ANY

INTERRUPTION OF LICENSEE'S BUSINESS, WHETHER RESULTING FROM BREACH OF CONTRACT OR BREACH OF WARRANTY, EVEN IF LICENSOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

13. Indemnification and Insurance.

13.1 Indemnification. Licensee shall indemnify, defend and hold harmless the CSHS Parties from and against any and all claims, demands, lawsuits, actions, proceedings, liabilities, losses, damages, fees, costs and expenses (including, without limitation, attorneys' fees, and costs of investigation and experts (whether or not suit is filed)) resulting from or arising out of (a) the manufacture, use or sale of any of the Licensed Products or the exercise by Licensee of any right granted hereunder, including, without limitation, any liabilities, losses or damages whatsoever with respect to death or injury to any individual or damage to any property arising from the possession, use or operation of any of the Licensed Products by Licensee or any third party in any manner whatsoever (except to the extent such death, injury or damage arises directly from the failure or malfunction of the Technology or Improvements used by Licensee in accordance with this Agreement), or (b) any claim that Licensee's manufacture, use, sale or other disposition of the Licensed Products infringes or violates any patent, copyright or other right of any third party, except to the extent such alleged infringement or violation relates solely to the Technology or Improvements.

13.2 Insurance. Licensee shall maintain at all times during and after the term of this Agreement comprehensive general liability insurance, including product liability insurance, with reputable and financially secure insurance carriers and having commercially reasonable limits giving due consideration to the nature and extent of such activities and the risks inherent therein to cover the activities of Licensee contemplated by this Agreement. Any such insurance shall provide for no cancellation or material alteration except upon at least thirty (30) days' prior written notice to CSHS. Licensee shall timely provide CSHS with certificates of insurance evidencing such coverage.

14. Infringement.

14.1 Third Party Infringement. In the event that either party learns of facts which it concludes may constitute an infringement of any of the Technology or any Improvements by any third party during the term of this Agreement, the party learning of such facts shall promptly notify the other party in writing, setting forth such facts and the basis for its conclusion, and shall include with such notice any other reasonably available evidence in support thereof.

14.2 Procedure. CSHS shall have the right, but not the obligation, to take all appropriate action against the infringing party and CSHS shall pay all costs and expenses (including without limitation CSHS's attorneys' fees and costs of investigation and experts) incurred in connection with such action. Licensee, at its own expense, shall have the right to participate in, and, to the extent that it may wish, to jointly assume the prosecution of such action with counsel reasonably satisfactory to CSHS. If CSHS declines to take action, then Licensee shall have the right to take such action. In the event Licensee does elect to take action, Licensee shall pay or reimburse CSHS for all costs and expenses (including without limitation attorneys' fees and costs of investigation and experts) incurred by CSHS at either Licensee's request or as may be required in order for Licensee to pursue such action. Licensee shall obtain the consent of CSHS prior to settling any such action.

14.3 Proceeds. Any proceeds from any settlement or judgment of any infringement claim, action, suit or proceeding brought by CSHS shall be allocated and/or paid within thirty (30) days of receipt thereof as follows: (a) first to reimburse CSHS (and Licensee, pari passu to the extent that it has not otherwise been reimbursed for attorneys' fees, costs and expenses incurred in connection with participation in the prosecution of such infringement) for attorneys' fees and other costs and expenses reasonably incurred in connection with the prosecution or other efforts to terminate the infringement pursuant to the terms of this Agreement; and (b) thereafter, the remainder shall be divided equally between the parties.

14.4 Nominal Plaintiff. In the event any infringement action, suit or proceeding is brought hereunder by either party to enforce any rights in the Technology in the Territory, each party shall upon the written request of the other party, be named, joined and participate therein as a nominal plaintiff.

14.5 Indemnification. CSHS shall indemnify, defend and hold harmless Licensee from and against any and all claims, demands lawsuits, actions, proceedings, liabilities, losses, damages, fees, costs and expenses (including, without limitation, attorneys' fees, and costs of investigation and experts (whether or not suit is filed)) resulting from or arising out of any claim that Licensee's use of the Technology or Improvements in accordance with this Agreement infringes or violates any patent, copyright or other intellectual property rights of any third party.

15. Term. This Agreement shall become effective on the date first above written and shall remain in effect until the later of (a) five (5) years after such date, or (b) the expiration date of the last to expire of any patents (if any) included in the Technology, unless sooner terminated pursuant to Section 17.1 hereof.

16. Termination.

16.1 Termination for Impossibility or Breach. This Agreement may be terminated at any time at the option of either party if action by any governmental authority renders impossible performance under this Agreement by either party. In addition, this Agreement may be terminated by either party if the other party breaches any material provision hereof (including without limitation any provision requiring payment by Licensee to CSHS), provided that termination may only take place if (a) the claiming party has given the breaching party written notice specifying the respects in which the claiming party claims this Agreement has been breached and (b) the breaching party fails to remedy such breach within thirty (30) days after receiving such notice.

16.2 Effect of Termination or Expiration. Upon the termination or expiration of the term of this Agreement, the license granted by CSHS to Licensee pursuant to Section 2.1 hereof shall terminate. Notwithstanding any termination or expiration of the term of this Agreement, Licensee shall be permitted to sell or otherwise dispose of all Licensed Products then in inventory and shall have the obligation to pay to CSHS all amounts which have accrued or shall accrue by reason of the sale of such Licensed Products. Licensee shall not be entitled to any refund of any amounts by reason of any termination or expiration of the term of this Agreement. Notwithstanding anything to the contrary set forth in this Agreement, in no event shall any rights afforded to End Users pursuant to Section 2.1(b) terminate as a result of expiration or termination of this Agreement for any reason.

17. Assignment. The rights and obligations of Licensee under this Agreement shall not be assignable without the prior written consent of CSHS (which consent may be granted or withheld by CSHS in its sole and absolute discretion) except in the event of a merger, consolidation or sale of substantially all of the assets of Licensee. In the event of any such merger, consolidation or sale of assets, CSHS shall have the right to approve or disapprove, on a reasonable basis, the use of any Licensed Products by the person or entity which is the successor-in-interest to Licensee. The rights and obligations of CSHS hereunder shall be assignable without the prior written consent of Licensee, upon written notice to Licensee.

18. Notice. Any notice or other communication hereunder must be given in writing and either (a) delivered in person, (b) transmitted by facsimile or telecopy mechanism provided that any notice so given is also mailed as provided herein, (c) delivered by Federal Express® or similar commercial delivery service or (d) mailed by certified mail, postage prepaid,

return receipt requested, to the party to which such notice or communication is to be given at the address set forth on the signature page of this Agreement or to such other address or to such other person as either party shall have last designated by such notice to the other party. Each such notice or other communication shall be effective (i) when personally delivered, (ii) if given by telecommunication, when transmitted, (iii) if given by mail, seven (7) days after such communication is deposited in the mail and addressed as aforesaid, (iv) if given by Federal Express® or similar commercial delivery service, three (3) business days after such communication is deposited with such service using next business day delivery and addressed as aforesaid, and (v) if given by any other means, when actually delivered at such address.

19. Arbitration. Any disagreement or any question of determination of terms, interpretation, enforceability or validity arising under or relating to the provisions of this Agreement or the subject matter hereof shall be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (“AAA”) and such arbitration shall be held in Los Angeles, California. The arbitrability of any such disagreement or question of determination shall likewise be subject to arbitration. The parties shall use their best efforts to cause any such arbitration to be completed as quickly as possible. The parties shall equally share the costs of the arbitrator(s), transcripts and any official translator(s). Any order, award or decision resulting from any such arbitration shall be final and binding upon the parties and shall be enforceable in any court of competent jurisdiction.

20. Governing Law. This Agreement and the legal relations between the parties shall be governed by and construed in accordance with the laws of the State of California, except where such are governed exclusively by federal law.

21. Attorneys’ Fees. In any arbitration or action between the parties seeking enforcement of any of the provisions of this Agreement, the prevailing party in such arbitration or action shall be awarded, in addition to damages, injunctive or other relief, its reasonable costs and expenses, not limited to taxable costs, and reasonable attorneys’ fees.

22. Relationship of Parties. Each party shall conduct all business in its own name as an independent contractor. No joint venture, partnership, employment, agency or similar arrangement is created between the parties. Neither party has the right or power to act for or on behalf of the other or to bind the other in any respect, to pledge its credit, to accept any service of process upon it, or to receive any notices of any nature whatsoever on its behalf.

23. Severability. If any provision of this Agreement is determined to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction then, to that extent and within the jurisdiction in which it is illegal, invalid or unenforceable, it shall be limited, construed or severed and deleted from this Agreement, and the remaining extent and/or remaining portions hereof shall survive, remain in full force and effect and continue to be binding and shall not be affected except insofar as may be necessary to make sense hereof, and shall be interpreted to give effect to the intention of the parties insofar as that is possible.

24. Entire Agreement. This Agreement (including all exhibits attached hereto which are herein incorporated by this reference) contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all previous negotiations, agreements, arrangements and understandings with respect to the subject matter hereof.

25. Interpretation. The normal rule of construction that an agreement shall be interpreted against the drafting party shall not apply to this Agreement. In this Agreement, whenever the context so requires, the masculine, feminine or neuter gender, and the singular or plural number or tense, shall include the others.

26. Amendment and Waiver. Neither this Agreement nor any of its provisions may be amended, changed, modified or waived except in a writing duly executed by an authorized officer of the party to be bound thereby.

27. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective legal representatives, successors and permitted assigns.

28. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, and such counterparts together, shall constitute one agreement.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands as of the day and year first above written.

"CSHS":

CEDARS-SINAI HEALTH SYSTEM
Cedars-Sinai Medical Center
8700 Beverly Boulevard
Los Angeles, CA 90048-1865
Attn: Senior Vice President & CFO

Facsimile: (310) 423-0101

"LICENSEE":

DIGIRAD, INC.

9350 Trade Place
San Diego, California 92126-6334
Attn: David Sheehan,
President & CEO
Facsimile: (858) 549-9789

By: */s/ Shlomo Melmed*
Shlomo Melmed, M.D.
Senior Vice President for
Academic Affairs

By: */s/ David Sheehan*
David Sheehan
President & CEO
Digirad Corporation

By: */s/ Edward M. Prunchunas*
Edward M. Prunchunas
Senior Vice President for
Finance & CFO

TECHNOLOGY AND SPECIFICATIONS

1. Technology.

General Description: All information, data and know-how, whether patentable or unpatentable, in whatever form or medium, relating to those portions of CSHS's software technologies known as: ***

2. Specifications.

[to be attached]

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

EXHIBIT A

FEES, ROYALTIES AND PAYMENTS

1. Royalties.

(a) Sales of *** to Third Party End Users. Licensee shall pay to CSHS royalties in the amounts set forth in the following table for the Licensed Products sold or otherwise distributed by Licensee during the term of the Agreement. Royalties shall accrue and be payable on a quarterly basis within thirty (30) days after the end of each calendar quarter in which a sale of Licensed Products occurs. (For the purposes of this section, the word "sale" shall mean the date on which the Licensee ships the Licensed Product to the particular End User.)

Royalties for individual software packages of *** and not sold as a part of a "Cedars Suite" (as such term is defined hereinafter) shall be as follows:

***

Amount of Royalty per Copy
***

(b) Sales of *** . The parties have a valid and existing License Agreement for, among other things, the *** technologies dated May 22, 2001 (" *** ") pursuant to which Licensee is obliged to pay certain royalty fees for such technologies. Pursuant to an Addendum to the *** License, Licensee has the right to license the *** technologies ***
***
***
***
.

(c) Use of *** by Licensee. The parties acknowledge that Licensee owns and operates *** mobile cameras which are used to provide services at third party sites. Licensee intends to install *** on the mobile cameras in the first quarter of 2003. The total royalties for the ***
and shall be paid with the other royalty payments due and payable hereunder in four (4) equal installments of *** per quarter in 2003.

(d) Royalty Reports. Licensee shall be responsible for all royalties due hereunder with respect to sales or other dispositions of Licensed Products to its Affiliates. Each payment of royalties pursuant hereto shall be accompanied by a statement setting forth (a) the number of Licensed Products sold individually and as a part of a *** , (b) such additional details as may be necessary for the calculation of the royalty payment and (c) in the first four (4) quarterly reports, a statement confirming the royalty payments made for the mobile cameras as provided in subparagraph 1(c) above.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

EXHIBIT B

FEES, ROYALTIES AND PAYMENTS

2. Payments. All payments by Licensee to CSHS shall be made in United States Dollars by check and shall be without set-off and free and clear of and without any deduction or withholding for or on account of any taxes, duties, levies, imposts or similar fees or charges. If any restrictions on the transfer of currency exist in any country or other jurisdiction so as to prevent Licensee from making payments to CSHS in the United States, Licensee shall take all reasonable steps to obtain a waiver of such restrictions or otherwise enable Licensee to make such payments, and if Licensee is unable to do so, Licensee shall make such payments to CSHS to a bank account or other depository designated by CSHS in such country or jurisdiction, which payments shall be in the local currency of such country or jurisdiction unless payment in United States Dollars is permitted. Any payment by Licensee to CSHS on the basis of sales of Licensed Products in currencies other than Untied States Dollars shall be calculated using the appropriate foreign exchange rate for such currency quoted in *The Wall Street Journal* for the close of business of the last banking day of the calendar quarter for which such payment is being made.

3. Late Payments. Any amount payable by Licensee to CSHS which is not paid within thirty (30) days of the invoice date shall bear interest at the rate which is the lower of (i) two percent (2%) over the rate of interest published in *The Wall Street Journal* as the “prime rate” as such “prime rate” is in effect from time to time or (ii) the highest rate permitted by applicable law, from the date such amount was due to the date such amount is paid. Neither the foregoing obligation to pay interest nor the acceptance of such interest shall in any way constitute any limitation or waiver of any of the rights or remedies of CSHS resulting from the failure of Licensee to pay in a timely manner any amount payable by Licensee to CSHS.

EXHIBIT 10.5

*** CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT (INDICATED BY ASTERISKS) HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT UNDER 17 C.F.R. SECTIONS 200.80(B)(4), 200.83 AND 230.406.

DEVELOPMENT AND SUPPLY AGREEMENT

This Development and Supply Agreement ("Agreement"), is made and entered into as of June 18, 1999, and is effective as of the 18th day of June, 1999 (the "Effective Date") by and between Digirad Corporation, a Delaware corporation ("Digirad"), and QuickSil, Inc., a California corporation ("QuickSil").

WITNESSETH

WHEREAS, QuickSil and Digirad wish to jointly develop certain products and wish to have QuickSil supply these products to Digirad.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter expressed, the parties agree as follows:

1. DEVELOPMENT OF PRODUCTS

(a) *** Product . Digirad and QuickSil shall continue to work together to develop and design
***
***
***
***

(b) Definition of Products. "Products" shall refer to the ***

(c) Reliability. QuickSil will warrant the reliability of the product. Product reliability performance will be defined within 60 days of the Effective Date, but will conform to *** .

(d) Product Quantity. "Product Quantity" equals the number of wafers that meet the Product Acceptance criteria specified in Exhibit A. Digirad and QuickSil shall work together to develop wafer probe and dicing capabilities for the Products to enable QuickSil to deliver *** that have passed the criteria defined in Exhibit A.

(e) Reporting: QuickSil shall provide a written monthly report to Digirad which identifies the monthly development objectives, accomplishments against these objectives and a project schedule update. QuickSil shall also provide a weekly WIP (work-in-process inventory) status update and ***

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

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for all product and experiments. This report should be sent to the VP Operations and MDE Manager.

(f) Product Shipment Times. Digirad's orders shall be binding, to the extent set forth in Subsection 2(b); provided, however, Digirad shall be free to increase orders in any time period so long as QuickSil is given advance notice of the requested increase in production for a period greater than the Product Shipment Lead Time. The "Product Shipment Lead Time" target is 3 weeks during the Product's development phase. Products ordered pursuant to the provisions of Subsection 2(b) below shall be delivered to Digirad on time as specified in Subsection 2(b) and all additional orders shall be delivered to Digirad no later than after the order than the Product Shipment Lead Time.

(g) Future Product. The parties will work together in good faith to develop a low-gain avalanche photodiode to be used in coincident imagining applications.

2. SUPPLY OF PRODUCTS

(a) Supply Requirements. Pursuant to the terms of this Agreement and so long as ***
***, Digirad shall purchase Products from QuickSil. Prior to the release of the *** as noted in Section 2(d), QuickSil and Digirad will expand the acceptance requirements in Exhibit A to include quality, customer service and updates to the Product Performance criteria.

(b) Product Acceptance Criteria: The product shall meet the acceptance criteria ("Acceptance") set forth in Appendix A. Such criteria shall include, but not be limited to yield, visual inspection, and *** performance, and *** *** and shall be provided to Digirad in writing with each product lot. The criteria set forth in Appendix A represents product acceptance in the product development phase, and will become more comprehensive prior to shipment of the production unit as noted in Section 2(d).

(c) Forecasts and other Purchasing Requirements. Digirad shall notify QuickSil on a rolling monthly basis of its projected requirements for Products for the next *** period. The first three months of the forecast will be binding with respect to the rolling forecast. Digirad's initial purchase order will be placed for a three month period, then on a monthly basis, Digirad will submit a purchase order for the third months of the new forecast. The remaining three months forecast serve as Digirad's good faith estimate of future needs.

(d) Initiation of Shipment. Production shipments of *** shall begin in October 1999.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

(e) Manufacturing Changes. QuickSil shall not make any changes to the manufacturing process or manufacturing location without the prior written approval of Digirad.

(f) Conformance to Specifications and Laws. All Products supplied or delivered to Digirad under this Agreement shall be in compliance with (i) the Performance Specifications and (ii) all proper and accurate marking and label requirements under applicable laws, regulations and statutes. The Products shall (i) comply with all federal, state and local laws, rules and regulations; (ii) not be the subject of any notice directed specifically to QuickSil from any court or other competent governmental body with respect to the Products that such Products are in violation of any law, regulation, order, decree or ruling of or restriction imposed by any judicial, governmental or regulatory body or agency; (iii) fully comply with the quality and other relevant specifications required for the Products by the relevant registration and marketing approvals for the Products. Without limiting any claims or remedies available to Digirad under the terms of this Agreement, or under applicable law, QuickSil shall promptly take all actions, legal and otherwise, to seek the replacement of defective or nonconforming Products supplied to Digirad under this Agreement.

(g) Title, Risk of Loss and Damage. Title and risk of loss shall pass to Digirad when the Products are duly delivered to Digirad by a common carrier. Digirad shall give QuickSil written notice of any claimed shipping error or non-conformities within thirty (30) days after the date of shipment from QuickSil. Failure of Digirad to give such notice within such 60-day period shall be deemed a waiver of Digirad's claim for shortages or incorrect shipments.

(h) Price. Prices for 1999 are detailed on Exhibit B attached hereto. For future years QuickSil and Digirad shall agree on pricing each December (for the following year) and such prices shall be effective for the next calendar year. In no event shall any price increase for the next year (in percentage terms) exceed the Consumer Price Index as measured by the U.S. Bureau of Labor statistics for the first six months of the current year.

(i) Payment for Products. QuickSil shall invoice Digirad for Digirad's purchases at the time of each shipment. Such invoices shall be payable net thirty (30) days from shipment of Products to Digirad.

(j) Technology Transfer and Escrow. In the event that either (i) QuickSil has an insolvency event (as defined in 6(b))(ii) files for Bankruptcy, (iii) QuickSil fails to produce the number of functional Products ordered by Digirad for more than sixty days (60) in any calendar year, or (iv) QuickSil is acquired by or merged into any company with whom Digirad determine in good faith competes in the nuclear medicine imaging market, then Digirad shall receive all rights to the technology used in the Products and all necessary information, data, know how, procedures, schematics, and specifications needed to produce the Products as described in Section 6 (b) (iii). The parties will take all actions and make all necessary assignment to facilitate such transfer of rights and information. In order to

facilitate such a transfer, QuickSil shall place all such information with a reputable third party escrow agent pursuant to a mutually acceptable Technology Escrow Agreement within sixty (60) days of the execution of this Agreement.

3. OWNERSHIP

(a) Digirad has licensed from *** device and process technology (the "***") to make ***

***
***

The *** manufactured by QuickSil for Digirad do not utilize the exact ***, specific changes have been made to the *** by QuickSil to enhance performance. Digirad has developed, and may further develop in connection with this Agreement, ***.

***

As such, Digirad has contributed Device and Design Technology to the Product. Digirad expressly retains the rights, title and interest (including all patent rights, copyrights, trade secrets rights and other intellectual property rights) to Device and Product Design Technology previously developed and developed pursuant to this agreement.

(b) QuickSil has contributed to this project process technology originally developed ***

***
***

and reduce and control *** ***. Note that these and similar techniques have been routinely utilized at QuickSil as part of its process technology arsenal.

(c) QuickSil hereby grants Digirad a royalty free, non-exclusive, non-transferable license of the QuickSil Process Technology and any improvements or modifications for internal use only and expressly limited to the specific application field of building *** . This License shall be limited to the terms of this Agreement, in accordance with the paragraphs 4 (a), 4 (b), and 6 (a), 6 (b), and 6 (c). QuickSil expressly retains for all purposes all rights to the Process Technology utilized at the inception of the Digirad project addressed in this agreement. QuickSil expressly retains the rights (including all patent rights,

copyrights, trade secrets rights and other intellectual property rights) to Process Technology previously developed and that is developed pursuant to this agreement as set forth in paragraphs 4 (a), 4 (b), and 6 (a), (b), and (c) herein.

(d) QuickSil agrees that it shall be required to negotiate directly with *** if it seeks to license the Design Technology for any field of use other than ***, or for customers other than and with Digirad. In no event shall any such effort to license violate paragraphs 4(a), 4(b), and 6 (a), (b), and (c) of this agreement.

4. EXCLUSIVITY

(a) Noncompete. Digirad will have exclusive rights to this Technology in the *** . The initial period of exclusivity will be for *** , beginning *** through *** and during this term, QuickSil shall neither *** ***(other than Digirad) engaged in or intending to engage in the *** , without written authorization from Digirad. During the fourth quarter of 2001 and of each following calendar year, QuickSil and Digirad will determine the number of wafers Digirad will purchase from QuickSil during the next calendar year to maintain exclusivity, but in no event shall the number of wafers be below *** wafers per year. In the event that the parties are unable to agree on such volume after *** , Digirad's rights to the technology will become non-exclusive.

(b) Digirad Commitment. During the term of this Agreement Digirad shall order at least *** of its annual requirements for Products from QuickSil. QuickSil will help Digirad work with other suppliers by supplying technical information which will allow Digirad meet its contractual commitments which require that Digirad have alternate suppliers capable of supplying all major components. Digirad anticipates that it will give between *** of its annual Products orders to

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

these other suppliers to ensure that the alternate suppliers are capable of producing Products. QuickSil will help to organize a second source for *** *** and will ensure that this second source has the required non-compete clause in their supply agreement.

5. CONFIDENTIALITY.

In order to aid in the fulfillment of the development and supply goals of the contract, both Digirad and QuickSil are conveying to each other and will in the future convey proprietary corporate information which each party has a significant interest in keeping protected and confidential. As a result, Digirad and QuickSil agree that:

(i) The information furnished by one party shall not be used by the other party for any purpose, except to fulfill the obligations to the other party under this Agreement and such information will be kept confidential by the receiving party and shall not be disclosed to any third party; provided, however, that any such information may be disclosed to a receiving party's affiliates, officers and employees who need to know such information for the purpose of evaluating a possible collaboration between both parties. The one exception to this requirement is defined in Section 4(b), in which Digirad and QuickSil will disclose process technology to a second source *** .

(ii) In addition, no party shall without prior written consent of the other party, disclose to any unaffiliated third persons that discussions or negotiations are taking place concerning a possible collaboration between the parties or any of the terms, conditions, or other facts with respect to any such possible collaboration including the status thereof.

(iii) The term "information" as used in the here above paragraphs and the nondisclosure obligations contained in this Agreement do not include information which:

1. is or becomes generally available to the public, other than as a result of a disclosure by a defaulting party;

2. was known by the other party prior to its disclosure by one party;

3. becomes available to a party on a non-confidential basis from a source other than the other party provided that such source is not bound by a confidentiality agreement with the other party;

4. is in the public domain;

5. is developed independently, as evidenced by appropriate documentation, by employees or agents or subcontractors of the receiving party who have not had access to the information;

6. is or becomes available to the receiving party by casual observance or analysis of products in the market; or

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7. is disclosed pursuant to judicial order, a lawful requirement of governmental agency; or by operation of law, but then only to the extent so ordered; in such case the receiving party will use its best efforts to timely advise the disclosing party prior to disclosure and allow the disclosing party an opportunity to obtain protections preventing the disclosure of the information.

(iv) Information shall remain the exclusive property of the disclosing party. No license whatsoever is implied from this Agreement except the license for non-commercial use as expressly set forth above.

(v) All Information disclosed by either Party to the other party shall be deemed to be confidential unless it is disclosed in written form and stamped by the disclosing party with the words "Non-Confidential Information" or the like at the time of disclosure.

(vi) Each party commits to immediately return all information received from the other party and to destroy or erase any and all copies it may have, either at any time upon simple request or upon termination or expiration of the business relationship between the parties.

(vii) The confidentiality and non-use obligations contained in this Agreement shall survive for five years from the date information is disclosed under this Agreement.

6. TERM AND TERMINATION.

(a) Term. Unless terminated early as described in this Section 6(b), the contract shall terminate on December 31, 2004. This Agreement shall automatically renew for successive one year periods so long as Digirad places its forecast pursuant to subsection 2(c) on or about July 31 (e.g., when Digirad places an order and it is accepted by QuickSil on July 31, 2004, this Agreement shall automatically be renewed until December 31, 2005.) However, the non-compete provisions of Section 4(a) above shall not apply in any given year beyond *** unless both Digirad and QuickSil both agree on the minimum number of Products that Digirad must purchase in a given year for Section 4(a) to continue in force.

(b) Early Termination. This Agreement may be terminated at any time upon the occurrence of any of the following events:

(i) Default. Sixty (60) days following written notice by the performing party to the other party in the event that the other party breaches any material provision of this Agreement and has not cured such breach within such sixty day (60) notice period.

(ii) Insolvency. Immediately upon written notice by either party to the other party upon (i) the insolvency of the other party, or the appointment of a receiver by the other party, or for all or any substantial part of its properties, provided that such receiver is not discharged within sixty (60) days of his appointment; (ii) the adjudication of the other party as a bankrupt; (iii) the admission by the other party in writing of its inability to pay its debts as they become due; (iv) the execution by the other party of an assignment for the benefit of its creditors, or (v) the filing by the other party of a petition to be adjudged a bankrupt, or a petition or answer admitting the material allegations of a petition

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filed against the other party in any bankruptcy proceeding, or the act of the other. party in instituting or voluntarily being or becoming a party to any other judicial proceeding intended to effect a discharge of the debts of the other party, in whole or in part (an "Insolvency Event").

(iii) Acquisition. In the event that QuickSil is acquired by or merged into another entity or that more than fifty percent of its voting stock is acquired through one or a series of transactions, then QuickSil must give notice to Digirad of the completion of such event. If QuickSil is acquired by or merged into an entity with whom Digirad in good faith determine *** ***, Digirad shall have the right to terminate this Agreement at anytime during the 90 day period immediately following its receipt of such notice. In the event Digirad terminates this agreement, pursuant to the preceding sentence, Digirad shall retain exclusive rights to the technology used in the Products and all necessary information, data, know how, procedures, schematics, and specifications needed to produce the Products until Dec 31, 2004 unless the Agreement is earlier terminated by QuickSil pursuant to section 6(b) (i) or (ii). At the end of the term, the right to the technology used in the Product and required information become non-exclusive.

(c) Survival. Termination under this Agreement shall not relieve any party of its obligations or liability for breaches of this Agreement incurred prior to or in connection with termination.

7. INDEMNIFICATION

(a) Indemnification by QuickSil. QuickSil will indemnify and hold Digirad harmless against any and all liability, damage, loss, cost or expense (including reasonable attorney fees) (collectively, "Liabilities") resulting from any third party claims made or suits brought against Digirad (excluding incidental or consequential damages suffered or incurred by Digirad directly as opposed to incidental or consequential damages suffered or incurred by third parties who are, in turn, seeking the same from Digirad, which shall be covered by the indemnity set forth, herein) which arise from QuickSil's breach of its obligations hereunder, or QuickSil's gross negligence or willful misconduct, except to the extent caused by Digirad's gross negligence, willful misconduct or breach of Digirad's obligations hereunder.

(b) Indemnification by Digirad. Digirad will indemnify and hold QuickSil harmless against any and all liability, damage, loss, cost or expense (including reasonable attorney fees) (collectively, "Liabilities") resulting from any third party claims made or suits brought against QuickSil (excluding incidental or consequential damages suffered or incurred by QuickSil directly as opposed to incidental or consequential damages suffered or incurred by third parties who are, in turn, seeking the same from QuickSil, which shall be covered by the indemnity set forth, herein) which arise from Digirad's breach of its obligations hereunder, or Digirad's gross negligence or willful misconduct, except to the extent caused by QuickSil's gross negligence, willful misconduct or breach of QuickSil's obligations hereunder.

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(c) Costs of Indemnification. If either party expects to seek indemnification from the other under Sections 6(a) or 6(b) it shall promptly give notice to the other party of any such claim or suit threatened, made or filed against it which forms the basis for such claim of indemnification and shall cooperate fully with the other party in the defense of all such claims or suits. No settlement or compromise shall be binding on a party hereto without its prior written consent.

8. GENERAL PROVISIONS

(a) Notices. Any notices permitted or required by this Agreement shall be sent by telex or telecopy or by certified or registered mail and shall be effective when received if sent and addressed as follows or to such other address as, may be designated by a party in writing:

If to QuickSil:

QuickSil, Inc.
1971 N. Capital Ave.
San Jose, CA 95132

Attention: Dr. Luc Bauer
Fax Number: (408) 935-7813

If to Digirad:

Digirad, Inc.
9350 Trade Place
San Diego, CA 92126

Attention: Scott Huennekens
Fax Number: (619) 549-7714

with a copy to:

Brobeck, Phleger & Harrison, LLP
550 West C Street, Suite 1300
San Diego, CA 92101-3532

Attention: Martin Nichols, Esq.
Fax Number: (619) 234-3848

(b) Entire Agreement; Amendment; Consents The parties hereto acknowledge that this Agreement sets forth the entire agreement and understanding of the parties and supersedes all prior written or oral agreements or understandings with respect to the subject matter hereof. No modification or amendment of any of the terms of this Agreement, or any amendments thereto, shall be deemed to be valid unless in writing and signed by all the parties hereto. No course of dealing or usage of trade shall be used to modify the terms and conditions herein.

(c) Waiver. No waiver by either party of any default, right or remedy shall be effective unless in writing, nor shall any such waiver operate as a waiver of any other or the same default, right or remedy on a future occasion.

(d) Assignment. This Agreement shall be binding upon and inure to the benefit of the successors or permitted assigns of each of the parties and may not be assigned or transferred by QuickSil without the prior written consent of Digirad, which consent will not be unreasonably withheld.

(e) No Third-Party Rights. No provision of this Agreement shall be deemed or construed in any way to result in the creation of any rights or obligations in any other individual, group, entity or organization not a party to this Agreement.

(g) Further Assurance. Each party hereby agrees to duly execute and deliver, or cause to be duly executed and delivered, such further instruments and do and cause to be done such further acts and things, including, without limitation, the filing of such additional assignments, agreements, documents and instruments, that may be necessary or as the other party hereto may at any time and from time to time reasonably request in connection with this Agreement.

(i) Force Majeure Events. Failure of any party to perform its obligations under this Agreement shall not subject such party to any liability to the other if such failure is caused by acts such as but not limited to acts of God, fire, explosion, flood, drought, war, riot, sabotage, embargo, strikes, compliance with any order or regulation of any government entity acting with color of right promulgated after the dates hereof. Upon occurrence of an event of force majeure, the party affected shall promptly notify the other in writing, setting forth the details of the occurrence, and making every attempt to resume the performance of its obligations as soon as practicable after the force majeure event ceases.

(j) Attorneys' Fees. Each party shall bear its own attorney's fees for the negotiation, execution and performance of this Agreement. In the event it becomes necessary for either party (or any of its affiliates) to institute any action at law or in equity (or in arbitration pursuant to the requirements of this Agreement) against the other party to enforce its rights hereunder, the prevailing party shall be entitled to recover from the non-prevailing party reasonable attorneys' fees, court costs and expenses relating to such action.

(k) Arbitration. The parties hereby agree that the proper venue and forum for all disputes under this Agreement is binding arbitration before a neutral arbitrator mutually acceptable to both parties and such arbitration to be conducted in San Diego California pursuant to the rules of the American Arbitration Association.

(1) Governing Law. The validity, interpretation and effect of this Agreement shall be governed by and construed under the laws of the State of California without regard to principles of conflict of laws.

(m) Severability. If any term or provision of this Agreement shall violate any applicable statute, ordinance or rule of law in any jurisdiction in which it is used or otherwise be unenforceable, such provision shall be ineffective to the extent of such violation without invalidating any other provision hereof.

(n) Headings, Exhibits. The headings used in this Agreement are for convenience only and are not a part of this Agreement. All exhibits references herein are hereby made a part of this Agreement.

(o) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same original.

(p) Relationship of Parties. The relationship of the parties under this Agreement is that of independent contractors. Nothing contained in this Agreement is intended or is to be construed so as to constitute the parties as partners, joint venturers, or any party as an agent or employee of the other. No party has any express or implied right under this Agreement to assume or create any obligation on behalf of or in the name of any other party, or to bind any other party to any contracts, agreement or undertaking with any third party, and no conduct of the parties shall be deemed to infer such right.

(q) Survival: Section 3, Section 5, Section 7 and Section 8 shall survive the termination of this agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be executed by their duly-authorized representatives effective as of the date and year set forth above.

QUICKSIL, INC.	**DIGIRAD CORPORATION**
By: */s/ Laura Bauer*	By: */s/ Scott Hennekens*
Laura Bauer	Scott Hennekens
Its President and CEO	Its President & CEO

[SIGNATURE PAGE TO DEVELOPMENT AND SUPPLY AGREEMENT]

EXHIBIT A

*** Product *** Performance Specification

Test Levels:

***
***
***

Conditions:

Test Temperature: ***
Illumination: ***
Test Voltage: ***

Wafer	Device	Bin		*** Criteria		*** Criteria
***	***	No.	Category	***	***	***

***	***	***	***	***	***
***	***	***	***	***	***
		***	***	***	***

*** Product Acceptance Criteria

Wafer and Lot Rejection:

Wafer Rejection: ***
***

Lot Rejection: ***
***

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

EXHIBIT B

1999 Wafer Pricing

Wafers shipped per month	Product	Price per Wafer
***	***	***
***	***	***
***	***	***

2002 Pricing

Wafers shipped per month	Price per ***
***	***
***	***
***	***

2003 Pricing

Wafers shipped per month	Price per ***
***	***
***	***
***	***

2004 Pricing

Wafers shipped per month	Price per ***
***	***
***	***
***	***

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

SILICON VALLEY BANK

LOAN AND SECURITY AGREEMENT

Borrower: **Digirad Corporation**
Address: **9350 Trade Place**
San Diego, CA 92126

Date: **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 good-faith business judgment, sale discretion, 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 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 outstanding 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 $535,000,000 (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(except for a public offering of Borrower's equity securities); (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.

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$5,000 per month for the number of months remaining (including any partial months) until the Maturity Date, Credit Limit, 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.

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, in 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 reconveyances 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 when made; 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 nonmonetary Obligation which by its nature cannot be cured; or

(e) Borrower shall fail to perform any other nonmonetary Obligation, which failure is not cured within10 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 breach 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 (1) 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 (other than in connection with the IPO, as defined above), 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.

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 ten (10) days prior to the sale, and, in the case of a public sale, notice of the sale is published at least ten (10) 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.

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 Collateral 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 good-faith business judgment, 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 raw materials and 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.

"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 good-faith business judgment, 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.

"Equipment" means all of Borrower's present and hereafter 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 chooses in action, causes of action, corporate or other business records, Deposit Accounts, Intellectual Property, 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" 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 PROVISIONS.*

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 **(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)**, 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.

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 release 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 eighteen months 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 eighteen month period is a reasonable and sufficient time for Borrower to investigate and act upon any such claim or cause of action. The eighteen month 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.

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 manner 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/ Illegible*
President or Vice President

By */s/ Gary G. Atkinson*
Secretary or Ass't Secretary

Silicon:

SILICON VALLEY BANK

By _____
Title _____

Form 3/24/99
Version -0-4

SILICON VALLEY BANK

Schedule To

Loan And Security Agreement

Borrower: **Digirad Corporation**
Address: **9350 Trade Place**
San Diego, CA 92126

Date: **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.

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.

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.

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).

4. MATURITY DATE (Section 6.1): One year from the date of this Agreement.

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; 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.

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.

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.

7. COMPENSATION (Section 5.5): Not applicable.

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 Locations and Addresses (Section 3.10):	None.
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 sole 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, on 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 any 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/ Illegible_*	By _____
President or Vice President	Title _____
By *_/s/ Gary G. 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, a 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. §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

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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

(l) 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 right 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;

(l) 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 during 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 assuring 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.

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 unenforceability 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 maybe 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) THIS 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 Atkinson
Address of Assignor:

9350 Trade Place
San Diego, CA 92126

STATE OF California)
) ss,
COUNTY OF San Diego)

On August 3, 2001, before me, Claudia Perez, Notary Public, personally appeared Gary Atkinson, 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/
(Seal)

Official Seal

EXHIBIT “A-l”

REGISTERED COPYRIGHTS

REG. DATE	REG. DATE	COPYRIGHT
NONE		

EXHIBIT “A-2”

UNREGISTERED COPYRIGHTS

NONE

DESCRIPTION OF COPYRIGHTS

EXHIBIT “A-3”

DESCRIPTION OF LICENSE AGREEMENTS

1. Software license agreement with Segami Corporation dated June 16, 1999.
2. Licence 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

PATENT	SERIAL/APPL. NO.	FILING DATE
Semiconductor radiation detector with downconversion element	6,194,726	September 22, 1998
Semiconductor gamma-ray camera and medical imaging system	6,194,725	April 5, 1999
Semiconductor gamma-ray camera and medical imaging system	6,172,362	April 5, 1999
Low profile open ring single photon emission computed tomographic imager	6,147,352	February 23, 1998
Semiconductor gamma-ray camera and medical imaging system	6,091,070	July 3, 1997
Semiconductor gamma-ray camera and medical imaging system	6,080,984	September 9, 1998
Bifurcated gamma camera system	6,055,450	February 23, 1998
Semiconductor radiation detector with enhanced charge collection	6,046,454	October 3, 1997

Radiation detector with shielding electrode	6,037,595	October 14, 1997
Cross-strip semiconductor detector with cord-wood construction	6,002,134	October 21, 1997
Apparatus for securing a medical imaging device to a body	5,967,983	October 31, 1995
Semiconductor gamma-ray camera and medical imaging system	5,874,396	July 3, 1997
Semiconductor gamma-ray camera and medical imaging system	5,786,597	June 28, 1996
Medical system for obtaining multiple images of a body from different perspectives	5,742,060	August 9, 1996
Semiconductor radiation detector with-enhanced charge collection	5,677,539	October 13, 1995
Apparatus and method for measuring light transmittance or reflectance	4,710,624	May 10, 1984

EXHIBIT "C"

TRADEMARKS

MARK	REG/FILE DATE	APP./SERIAL NO.
Digirad Imaging Solutions	March 6, 2001	76220818
Agile	June 5, 2000	76067092
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 6, 1994	74569856
Rim		
Hybrid Heat Sink		

Silicon Valley Bank

Certified Resolution and Incumbency Certificate

Borrower: Digirad Corporation,
a corporation organized under the laws
of the State of Delaware

Date: July 31, 2001

I, the undersigned, Secretary or Assistant Secretary of the above-named borrower, a corporation organized under the laws of the state set forth above, do hereby certify that the following is a full, true and correct copy of resolutions duly and regularly adopted by the Board of Directors of said corporation as required by law, and by the by-laws of said corporation, and that said resolutions are still in full force and effect and have not been in any way modified, repealed, rescinded, amended or revoked.

RESOLVED, that this corporation borrow from Silicon Valley Bank ("Silicon"), from time to time, such sum or sums of money as, in the judgment of the officer or officers hereinafter authorized hereby, this corporation may require.

RESOLVED FURTHER, that any officer of this corporation be, and he or she is hereby authorized, directed and empowered, in the name of this corporation, to execute and deliver to Silicon, and Silicon is requested to accept, the loan agreements, security agreements, notes, financing statements, and other documents and instruments providing for such loans and evidencing and/or securing such loans, with interest thereon, and said authorized officers are authorized from time to time to execute renewals, extensions and/or amendments of said loan agreements, security agreements, and other documents and instruments.

RESOLVED FURTHER, that said authorized officers be and they are hereby authorized, directed and empowered, as security for any and all indebtedness of this corporation to Silicon, whether arising pursuant to this resolution or otherwise, to grant, transfer, pledge, mortgage, assign, or otherwise hypothecate to Silicon, or deed in trust for its benefit, any property of any and every kind, belonging to this corporation, including, but not limited to, any and all real property, accounts, inventory, equipment, general intangibles, instruments, documents, chattel paper, notes, money, deposit accounts, furniture, fixtures, goods, and other property of every kind, and to execute and deliver to Silicon any and all grants, transfers, trust receipts, loan or credit agreements, pledge agreements, mortgages, deeds of trust, financing statements, security agreements and other hypothecation agreements, which said instruments and the note or notes and other instruments referred to in the preceding paragraph may contain such provisions, covenants, recitals and agreements as Silicon may require and said authorized officers may approve, and the execution thereof by said authorized officers shall be conclusive evidence of such approval.

RESOLVED FURTHER, that Silicon may conclusively rely upon a certified copy of these

resolutions and a certificate of the Secretary or Ass't Secretary of this corporation as to the officers of this corporation and their offices and signatures, and continue to conclusively rely on such certified copy of these resolutions and said certificate for all past, present and future transactions until written notice of any change hereto or thereto is given to Silicon by this corporation by certified mail, return receipt requested.

RESOLVED FURTHER, that, in connection with the foregoing loans, this corporation shall issue to Silicon five-year warrants to purchase 42,490 shares of Series E Preferred stock of this corporation, at $3.036 per share, on the terms and provisions of Silicon's standard form Warrant to Purchase Stock and related documents; with such changes therein as Silicon and this corporation shall agree; any officer of this corporation is hereby authorized to execute and deliver such Warrant to Purchase Stock and related documents, and all documents and instruments relating thereto, in such form and containing such additional provisions as said authorized officers may approve, and the execution thereof by said authorized officers shall be conclusive evidence of such approval.

The undersigned further hereby certifies that the following persons are the duly elected and acting officers of the corporation named above as borrower and that the following are their actual signatures:

NAMES	OFFICE (S)	ACTUAL SIGNATURES
R. Scott Huennekens	President and CEO	*/s/ R. Scott Huennekens*
Gary JG Atkinson	Vice President and CEO	*/s/ Gary JG Atkinson*

IN WITNESS WHEREOF, I have hereunto set my hand as such Secretary or Assistant Secretary on the date set forth above.

Gary JG Atkinson
Secretary or Assistant Secretary

Deposit Account Control Agreement

July 31, 2001

Merrill Lynch

Boston, MA

Re: Digirad Corporation

Gentlemen:

Digirad Corporation (the "Customer") has granted to Silicon Valley Bank (the "Lender") a security interest in, and lien on, all of the following (whether now or hereafter existing or arising) (collectively, the "Collateral"): All of the Customer's present and future deposit accounts maintained by the Customer with you (the "Deposit Accounts"), including without limitation all demand, time, savings, passbook and similar accounts, and all present and future cash balances from time to time credited to any of the Deposit Accounts, and all proceeds of any and all of the foregoing.

Accordingly, we ask that you confirm your agreement as follows:

1. Customer's Directions. Until you have received instructions from the Lender to the contrary, the Customer shall be entitled to present items drawn on and otherwise to withdraw or direct the disposition of funds from the Deposit Accounts; provided, however, that the Customer may not close any Deposit Account, without the Lender's prior written consent.

2. Lender's Rights. Notwithstanding the foregoing or any separate agreement that the Customer may have with the Lender, the Lender shall be entitled at any time to give you instructions as to the withdrawal or disposition of any funds from time to time credited to any or all of the Deposit Accounts, or as to any other matters relating to the Deposit Accounts or any of the other Collateral, without the Customer's further consent. You hereby agree to comply with any such instructions without any further consent from the Customer. Such instructions may include the giving of stop payment orders for any items being presented to any Deposit Account for payment. You shall be fully entitled to rely upon such instructions from the Lender, even if such instructions are contrary to any instructions or demands that the Customer may give to you. The Customer confirms that you are to follow instructions from the Lender even if the result of following such instructions from the Lender is that you dishonor items presented for payment from a Deposit Account. The Customer further confirms that you shall have no liability to the Customer for wrongful dishonor of any such items in following such instructions from the Lender. You shall have no duty to inquire or determine whether the Customer's obligations to the Lender are in default or whether the Lender is entitled, under any separate agreement between the Customer and the Lender, to give any such instructions. The Customer further agrees to be responsible for your customary charges and to indemnify you from, and to hold you harmless against, any loss, cost or expense that you may sustain or incur in acting upon instructions from the Lender, or which you believe in good faith to be instructions from the Lender.

3. Waiver of Setoff. You agree not to exercise any right of recoupment or set-off, or to assert any banker's lien, security interest or other lien on, against or in any of the Deposit Accounts or other Collateral on account of any credit or other obligation owed to you by the Customer or any other person, or otherwise, provided that you shall have the right, from time to time, to debit the Deposit Accounts for any of your customary charges in maintaining the Deposit Accounts or for reimbursement for the reversal of any provisional credits granted by you to the Deposit Accounts, to the extent, in each case, that the Customer has not separately paid or reimbursed you for any of the foregoing.

4. Statements. You agree to furnish to the Lender, at its address indicated below, copies of all customary deposit account statements and other information relating to the Deposit Accounts that you send to the Customer.

5. Governing Law; Other Agreements. This agreement shall be governed by the internal law of the State of California. You represent and warrant to the Lender that the account agreement between you and the Customer relating to the establishment and general operation of the Deposit Accounts provides that the laws of the State of govern the Deposit Accounts and secured transactions relating thereto, and you agree not to amend that account agreement to provide that the laws of another jurisdiction will so govern. In addition, you represent and warrant, to the Lender that you have not entered into, and you agree not to enter, into any agreement with any other person by which you are obligated to comply with instructions from that personas to the disposition of funds from any of the Deposit Accounts or other dealings with any of the Collateral.

6. General. This agreement us sets forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, oral representations, oral agreements and oral understandings between the parties with respect to the subject matter hereof. This agreement shall control over any conflicting agreement between you and the Customer. This agreement may not be modified or amended, nor may any rights hereunder be waived, except in a writing signed by the parties hereto. In the event of any litigation between the parties based upon, arising out of, or relating to this agreement, the prevailing party shall be entitled to recover its reasonable costs and expenses (including without limitation reasonable attorneys' fees) from the nonprevailing party. The parties agree to cooperate fully with each other and take such further actions and execute such further documents from time to time as may be reasonably necessary to carry out the purposes of this agreement.

Sincerely yours,

Lender:	Customer:
SILICON VALLEY BANK	DIGIRAD CORPORATION
By _____	By */s/ Gary JG Atkinson*
Title _____	Title Chief Financial Officer

Address: _____	Address: 9350 Trade Place
_____	San Diego CA 92126-6334
Attn: _____	Attn: Gary Atkinson

Accepted and Agreed:

MERRILL LYNCH

By _____
Title _____

Silicon Valley Bank

Amendment to Loan Documents

Borrower: Digirad Corporation

Date: March 28, 2002

THIS AMENDMENT TO LOAN DOCUMENTS is entered into between Silicon Valley Bank ("Silicon") and the borrower named above ("Borrower").

The Parties agree to amend the Loan and Security Agreement between them, dated July 31, 2001 (as otherwise amended, if at all, 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. Modified Cash Management Sublimit. Section 1.6 of the Loan Agreement is hereby amended to read as follows:

1.6 Cash Management Services and Reserves. Borrower may use up to $200,000 of Loans available hereunder for Silicon's Cash Management Services (as defined below), including, merchant services, business credit card, ACH and other services identified in the cash management services agreement related to such service (the "Cash Management Services") but excluding ACH payroll cash management services. Silicon may, in its sole discretion, reserve against Loans which would otherwise be available hereunder such sums as Silicon shall determine in connection with the Cash Management Services, and Silicon may charge to Borrower's Loan account, any amounts that may become due or owing to Silicon in connection with the Cash Management Services. Borrower agrees to execute and deliver to Silicon all standard form applications and agreements of Silicon in connection with the Cash Management Services, and, without limiting any of the terms of such applications and agreements, Borrower will pay all standard fees and charges of Silicon in connection with the Cash Management Services. The Cash Management Services shall terminate on the Maturity Date.

2. Modified Credit Limit. Section 1 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

1. CREDIT LIMIT
(Section 1.1): An amount equal to the sum of 1, 2 and 3 below:

1. Revolving Loans. 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) 85% (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) 35% 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) $500,000.

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.

Cash Management Sublimit
(Section 1.6): See Section 1.6 above;

plus

2. Payroll Cash Management Services Loans. Borrower has executed a cash management services agreement pursuant to which, in part, Borrower may utilize ACH payroll cash management services up to an amount of $350,000 (the "Payroll Cash Management Services Line"). Upon Silicon's receipt of an ACH payroll service charge ("Payroll Charge"), if Borrower's operating account does not have sufficient funds to pay such Payroll Charge and if Silicon is obligated to pay such Payroll Charge, then Silicon will make such payment(s) and any such payments by Silicon shall constitute Obligations under this Agreement. Borrower agrees to execute and deliver to Silicon all standard form applications and agreements of Silicon in connection with

the Payroll Cash Management Services Line, and, without limiting any of the terms of such applications and agreements, Borrower will pay all standard fees and charges of Silicon in connection with the Payroll Cash Management Services Line. The Payroll Cash Management Services Line shall terminate on the Maturity Date;

plus

3. Cash Secured Letter of Credit. $205,000. Silicon previously issued for the account of Borrower a Standby Letter of Credit in the amount of $205,000 (the "Standby Letter of Credit"), which Standby Letter of Credit is secured by a certificate of deposit

pledged to Silicon on Silicon's standard form documentation.

3. Modified Minimum Tangible Net Worth Financial Covenant. The Minimum Tangible Net Worth Financial Covenant set forth in Section 5 of the Schedule to Loan and Security Agreement is hereby amended in its entirety to read as follows:

"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 $500,000, plus 50% of the total consideration received by Borrower after March 1, 2002, in consideration for the issuance by Borrower of its equity securities and subordinated debt securities, effective on the date such consideration is received, plus 50% of Borrower's year to date net income as of the end of the applicable reporting period.; and Borrower shall maintain, on a consolidated basis, a Tangible Net Worth of not less than $1,000,000, plus 50% of the total consideration received by Borrower after March 1, 2002, in consideration for the issuance by Borrower of its equity securities and subordinated debt securities, effective on the date such consideration is received, plus 50% of Borrower's year to date net income as of the end of the applicable reporting period."

4. Covenant Regarding Banking Relationship. Subclause (1) of Section 9 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

"(1) Banking Relationship. Borrower shall at all times maintain its primary banking relationship with Silicon. Without limiting the generality of the foregoing, Borrower shall, at all times, maintain not less than 80% of its total cash and investments on deposit with Silicon.

5. Fee. As consideration for Silicon entering into this Amendment, Borrower shall concurrently pay Silicon a fee in the amount of $7,500, which shall be non-refundable and in addition to all interest and other fees payable to Silicon under the Loan Documents. Silicon is authorized to charge said fee to Borrower's loan account.

6. Representations True. Borrower represents and warrants to Silicon that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

7. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written documents and agreements between Silicon and 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 Silicon and Borrower shall continue in full force and effect and the same are hereby ratified and confirmed.

Borrower:	**Silicon:**
DIGIRAD CORPORATION	**SILICON VALLEY BANK**
By *<u>/s/ Illegible</u>* President or Vice President	By *<u>/s/ Illegible</u>* Title Vice President and Regional Market Manager
By *<u>/s/ Illegible</u>* Secretary or Ass't Secretary	

Amendment to Loan Documents

Borrower: **Digirad Corporation**

Date: **August 29, 2002**

THIS AMENDMENT TO LOAN TO LOAN DOCUMENTS is entered into between Silicon Valley Bank ("Silicon") and the borrower named above ("Borrower").

The Parties agree to amend the Loan and Security Agreement between them, dated July 31, 2001 (as otherwise amended, if at all, 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. Modified Definition of Eligible Receivables. Subclause (i) of the Minimum Eligibility Requirements set forth in the definition of Eligible Receivables in Section 8 of the Loan Agreement is hereby amended to read as follows:

(i) the Receivable must not be outstanding for more than 120 days from its invoice date,

2. Modified Credit Limit. Section 1 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

1. CREDIT LIMIT
(Section 1.1): An amount equal to the sum of 1, 2 and 3 below:

1. Revolving Loans. An amount not to exceed the lesser of a total of $5,000,000 at any one time outstanding (the "Maximum Credit Limit"), the sum of (a) and (b) below:

(a) **85%** (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) **35%** 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) $650,000.

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% Percent Advance Rate with Dilution over 5% but less than 10%; up to 75% Percent 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.

Cash Management
Sublimit
Section 1.6): See Section 1.6 above;

plus

2. Payroll Case Management Services Loans. Borrower has executed a cash management services agreement pursuant to which in part, Borrower may utilize ACH payroll cash management services up to an amount of $350,000 (the "Payroll Cash Management Services Line"). Upon Silicon's receipt of an ACH payroll service charge ("Payroll Charge"), if borrower's operating account does not have sufficient funds to pay such Payroll Charge and if Silicon is obligated to pay such Payroll Charge, then Silicon will make such payment(s) and any such payments by Silicon shall constitute Obligations under this Agreement. Borrower agrees to execute and deliver to Silicon all standard form applications and agreements of Silicon in connection with the Payroll Cash Management Services Line, and, without limiting any of the terms of such applications and agreements, Borrower will pay all standard fees and charges of Silicon in connection with the Payroll Cash Management Services Line. The Payroll Cash Management Services Line shall terminate on the Maturity Date;

plus

3. Cash Secured Letter of Credit. $205,000. Silicon previously issued for the account of Borrower a Standby Letter of Credit in the amount of $205,000 (the "Standby Letter of Credit"), which Standby Letter of Credit is secured by a certificate of deposit pledged to Silicon on Silicon's standard form documentation.

3. Modified Interest Rate. Section 2 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

2. INTEREST.

Interest Rate (Section 1.2):

A rate equal to the "Prime Rate" in effect from time to time, plus 1.75% per annum Interest shall be calculated on the basis of a 360-day year for the actua1 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.

4. Modified Maturity Date. Section 4 of the Schedule to Loan and Security Agreement is hereby amended to read as follows:

4. MATURITY DATE (Section 6.1): **August 31, 2003**, subject to early termination as provided in Section 6.2 above.

5. Addition of Minimum Cash On Hand Financial Covenant. The following Minimum Cash on Hand Financial Covenant is hereby added to Section 5 of the Schedule to Loan and Security Agreement, entitled "5. FINANCIAL COVENANTS (Section 5.1)," and shall read as follows:

Minimum Cash on Hand: Borrower shall at all times maintain a minimum of unrestricted cash (and cash equivalents) in accounts maintained Silicon in an amount of not less than $2,500,000.

6. Guaranty of Obligations to Heller Financial. A new subclause (8) is hereby added to Section 9 of the Schedule to Loan and Security Agreement and shall read as follows:

(8) Guaranty of Obligations to Heller Financial. Borrower is hereby permitted to guaranty the obligations of its subsidiaries Orion Imaging Systems, Inc. ("Orion") and Digirad Imaging Systems, Inc. ("Digirad Imaging," together with Orion, the "Subsidiaries") to Heller Healthcare Finance, Inc. ("Heller"), and any successor to Heller, under any financing agreements between Heller and the Subsidiaries (the "Heller Documents"), but only on an unsecured basis and only up to an aggregate of $5,000,000 for the Subsidiaries on a combined basis (the "Digirad Guaranty"); provided further that Heller and Silicon enter into an letter agreement or other applicable agreement, acceptable to each in its respective discretion, pursuant to which Heller agrees to provide Silicon

with written notice of any default under the Heller Documents.

7. Defaults Regarding Guaranteed Obligations. New subclause (r) and (s) are hereby added to Section 7.1 of the Loan Agreement, will immediately follow 7.1(q) and shall read as follows:

; or (r) without limiting any of the foregoing, any default or event of default occurs under the Heller Documents and Heller dec1ares such default, or provides notice (or is required to provide notice) to the Subsidiaries of the same; or (s) without limiting any of the foregoing, Heller takes any action against Borrower with respect to the Digirad Guaranty, including without limitation, seeking payment by Borrower of its obligations under the Digirad Guaranty.

8. Subsidiaries Guaranty. Within 60 days of the date hereof, Borrower shall have caused each of Orion and Digirad Imaging to execute and deliver to Silicon a Continuing Guaranty, in such form as Silicon shall specify, with respect to all of the Obligations, together with the consent, if any, required from Heller with respect to such Guaranty, and Borrower shall cause such Guaranty to continue in full force and effect throughout the term of this Loan Agreement and so long as any portion of the Obligations remains outstanding.

9. Fee. As consideration for Silicon entering into this Amendment, Borrower shall concurrently pay Silicon a fee in the amount of $25,000, which shall be non-refundable and in addition to all interest and other fees payable to Silicon under the Loan Documents. Silicon is authorized to charge said fee to Borrower's loan amount.

10. Representations True. Borrower represents and warrants to Silicon that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

11. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written documents and agreements between Silicon and 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 Silicon and Borrower shall continue in full force and effect and the same are hereby ratified and confirmed.

Borrower:	**Silicon:**
DIGIRAD CORPORATION	**SILICON VALLEY BANK**
By */s/ Illegible*	By */s/ Illegible*
President or Vice President	Title Vice President
By */s/ Illegible*	
Secretary or Ass't Secretary	

Silicon Valley Bank

Amendment to Loan Documents

Borrower: Digirad Corporation

Date: As of February 28, 2003

THIS AMENDMENT TO LOAN DOCUMENTS (this "Amendment") is entered into between SILICON VALLEY BANK ("Silicon") and the borrower named above (the "Borrower").

Silicon and Borrower hereby agree to amend the Loan and Security Agreement from between them, dated as of July 31, 2001 (as amended, restated, supplemented, or otherwise modified from time to time, the "Loan Agreement"), as follows, effective as of the date hereof. (Capitalized term used but not defined in this Amendment, shall have the meanings set forth in the Loan Agreement.):

1. Limited Waiver. Silicon and Borrower agree that solely Borrower's failure to comply with the Minimum Tangible Net Worth financial covenant (at the Borrower level only and not consolidated with any subsidiaries) set forth in Section 5 of the Schedule to the Loan Agreement for the month ended January 31, 2003 (the "Designated Default") hereby is waived. It is understood by the parties hereto, however, that the foregoing waiver of the Designated Default does not constitute a waiver of such financial covenant with respect to any other date or time period or of any other provision or term of the Loan Agreement or any related document, nor an agreement to waive in the future such covenant with respect to any other date or time period or any other provision or term of the Loan Agreement or any related document.

2. Modification of Minimum Tangible Net Worth Covenant. The portion of Section 5 of the Schedule to the Loan Agreement that currently reads:

"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 $500,000, plus 50% of the total consideration received by Borrower after March 1, 2002, in consideration for the issuance by Borrower of its equity securities and subordinated debt securities, effective on the date such consideration is received, plus 50% of Borrower's year to date net income as of the end of

the applicable reporting period.; and

Borrower shall maintain, on a consolidated basis, a Tangible Net Worth of not less than $1,000,000, plus 50% of the total consideration received by Borrower after March 1, 2002, in consideration for the issuance by Borrower of its equity securities and subordinated debt securities, effective on the date such consideration is received, plus 50% of Borrower's year to date net income as of the end of the applicable reporting period."

, hereby is amended and restated in its entirety to read as follows:

"Minimum Tangible Net Worth: (a) Borrower shall maintain, at the Borrower level only and not consolidated with any subsidiaries, a Tangible Net Worth of not less than: (i) $6,100,000, for each month during the period commencing January 1, 2003 and ending on March 31, 2003; (ii) $5,100,000, for each month during the period commencing April 1, 2003 and ending on June 30, 2003; (iii) $5,000,000, for each month during the period commencing July 1, 2003 and ending on September 30, 2003; and (iv) $5,000,000, for each month during the period commencing October 1, 2003 and ending on December 31, 2003; and

(b) Borrower shall maintain, on a consolidated basis, a Tangible Net Worth of not less than: (i) $6,900,000, for each month during the period commencing January 1, 2003 and ending on March 31, 2003; (ii) $6,700,000, for each month during the period commencing April 1, 2003 and ending on June 30, 2003; (iii) $6,900,000, for each month during the period commencing July 1, 2003 and ending on September 30, 2003; and (iv) $7,400,000, for each month during the period commencing October 1, 2003 and ending on December 31, 2003."

3. Fee. As consideration for Silicon entering into this Amendment, Borrower shall concurrently pay Silicon a fee in the amount of $5,000, which shall be non-refundable and in addition to all interest and other fees payable to Silicon under the Loan Documents. Silicon is authorized to charge said fee to Borrower's loan account.

4. Representations True. Borrower represents and warrants to Silicon that all

representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

5. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written documents and agreements between Silicon and 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 Silicon and Borrower, shall continue in full force and effect and the same (as so amended, if applicable) are hereby ratified and confirmed.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date first above written.

Borrower:	Silicon:
DIGIRAD CORPORATION	**SILICON VALLEY BANK**
By */s/ Illegible* President or Vice President	By */s/ Illegible* Title
By */s/ Illegible*	

Secretary or Ass't Secretary

CONSENT

The undersigned acknowledges that the undersigned's consent to the foregoing Amendment is not required, but the undersigned nevertheless does hereby consent to the foregoing Amendment and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the guaranty of each of the undersigned in favor of Silicon relative to Borrower, which guaranty is hereby ratified and affirmed by each of the undersigned.

Digirad Imaging Solutions,
a Delaware corporation formerly

known as Orion Imaging Systems, Inc.

By *__/s/ Illegible__*
Title CFO

Digirad Imaging Systems, Inc.,
a Delaware corporation

By *__/s/ Illegible__*
Title CFO

Silicon Valley Bank

Amendment to Loan Documents

Borrower: **Digirad Corporation**

Date: **As of May 1, 2003**

THIS AMENDMENT TO LOAN DOCUMENTS (this "Amendment") is entered into between SILICON VALLEY BANK ("Silicon") and the borrower named above (the "Borrower").

Silicon and Borrower hereby agree to amend the Loan and Security Agreement between them, dated as of July 31, 2001 (as amended, restated, supplemented, 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 Consent. Anything in Section 6(9) of the Schedule to Loan Agreement to the contrary notwithstanding, Silicon hereby consents to the delivery by Borrower of the audited annual financial statements of Borrower for the fiscal year ended December 31, 2002 as soon as available after the 120th day after such year-end but in any event not later than May 31, 2003. It is understood by Borrower, however, that such consent does not constitute a waiver of any failure of Borrower to comply with Section 6(9) of the Schedule to the Loan Agreement in respect of the audited annual financial statements of Borrower for any other fiscal year, nor a waiver of any other provision or term of the Loan Agreement or any other Loan Document, nor an agreement to waive compliance, in the future, with Section 6(9) of the Schedule to the Loan Agreement in respect of the audited annual financial statements of Borrower for any other fiscal year, or any other provision or term of the Loan Agreement or any other Loan Document.

2. Fee. As consideration for Silicon entering into this Amendment, Borrower shall concurrently pay Silicon a fee in the amount of $1,000, which shall be non-refundable and in addition to all interest and other fees payable to Silicon under the Loan Documents. Silicon is authorized to charge said fee to Borrower's loan account.

3. Representations True. Borrower represents and warrants to Silicon that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

4. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written

documents and agreements between Silicon and 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 Silicon and Borrower, shall continue in full force and effect and the same (as so amended, if applicable) are hereby ratified and confirmed.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date rust above written.

Borrower:	Silicon:
DIGIRAD CORPORATION	**SILICON VALLEY BANK**
By */s/ Illegible* CFO	By _____ Title _____
By */s/ Illegible* Secretary or Ass't Secretary	

CONSENT

The undersigned acknowledges that the undersigned's consent to the foregoing Amendment is not required, but the undersigned nevertheless does hereby consent to the foregoing Amendment and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the guaranty of each of the undersigned in favor of Silicon relative to Borrower, which guaranty is hereby ratified and affirmed by each of the undersigned.

Digirad Imaging Solutions,
a Delaware corporation formerly
known as Orion Imaging Systems, Inc.

By /s/ Illegible
Title CFO

Digirad Imaging Systems, Inc.,
a Delaware corporation

By */s/ Illegible*
Title CFO

Silicon Valley Bank

Amendment to Loan Documents

Borrower: Digirad Corporation

Date: August 27, 2003

THIS AMENDMENT TO LOAN DOCUMENTS (this "Amendment") is entered into between SILICON VALLEY BANK ("Silicon") and the borrower named above (the "Borrower").

Silicon and Borrower hereby agree to amend the Loan and Security Agreement between them, dated as of July 31, 2001 (as amended, restated, supplemented, 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. Modification of Maturity Date. Section 4 of the Schedule to the Loan Agreement, which currently reads as follows:

4. MATURITY DATE
(Section 6.1): **August 31, 2003,** subject to early termination as provided in Section 6.2 above.

, hereby is amended and restated in its entirety to read as follows:

4. MATURITY DATE (Section 6.1): **October 15, 2003,** subject to early termination as provided in Section 6.2 above.

2. Fee. As consideration for Silicon entering into this Amendment, Borrower shall concurrently pay Silicon a fee in the amount of $2,000, which shall be non-refundable and in addition to all interest and other fees payable to Silicon under the Loan Documents. Silicon is authorized to charge said fee(s) to Borrower's loan account.

3. Representations True. Borrower represents and warrants to Silicon that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and

correct.

4. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written documents and agreements between Silicon and 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 Silicon and Borrower, shall continue in full force and effect and the same (as so amended, if applicable) are hereby ratified and confirmed.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date first above written.

Borrower:

DIGIRAD CORPORATION

By *__/s/ Illegible__* CFO
President or Vice President

By Vera Pardee, General Counsel
Secretary or Ass't Secretary

Silicon:

SILICON VALLEY BANK

By _____
Title _____

CONSENT

The undersigned acknowledges that the undersigned's consent to the foregoing Amendment is not required, but the undersigned nevertheless does hereby consent to the foregoing Amendment and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the guaranty of each of the undersigned in favor of Silicon relative to Borrower, which guaranty is hereby ratified and affirmed by each of the undersigned.

Digirad Imaging Solutions,
a Delaware corporation formerly
known as Orion Imaging Systems, Inc.

By /s/ Illegible
Title CFO

Digirad Imaging Systems, Inc.,
a Delaware corporation

By */s/ Illegible*
Title CFO

Silicon Valley Bank

Amendment to Loan Documents

Borrower: Digirad Corporation

Date: October 6, 2003

THIS AMENDMENT TO LOAN DOCUMENTS (this "Amendment") is entered into between SILICON VALLEY BANK ("Silicon") and the borrower named above (the "Borrower").

Silicon and Borrower hereby agree to amend the Loan and Security Agreement between them, dated as of July 31, 2001 (as amended, restated, supplemented, 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. Modification of Interest Rate. The portion of Section 3 of the Schedule to the Loan Agreement that currently reads as follows:

A rate equal to the "Prime Rate" in effect from time to time, plus **1.75%** per annum.

, hereby is amended and restated in its entirety to read as follows:

A rate equal to the "Prime Rate" in effect from time to time, plus 1.75% per annum; provided that the interest rate in effect on any day shall not be less than **5.75%** per annum.

2. Modification of Maturity Date. Section 4 of the Schedule to the Loan Agreement, which currently reads as follows:

4. MATURITY DATE
(Section 6.1): **October 15, 2003,** subject to early termination as provided in Section 6.2 above.

, hereby is amended and restated in its entirety to read as follows:

4. MATURITY DATE
(Section 6.1): **October 15, 2004,** subject to early termination as provided in Section 6.2 above.

3. Limited Waiver. Silicon and Borrower agree that solely Borrower's failure to comply with the Minimum Tangible Net Worth financial covenant (at the Borrower level only and not consolidated with any subsidiaries) set forth in Section 5 of the Schedule to the Loan Agreement for each of the months ended August 31, 2003 and September 30, 2003 (individually and collectively, the "Designated Default") hereby is waived. It is understood by the parties hereto, however, that the foregoing waiver of the Designated Default does not constitute a waiver of such financial covenant with respect to any other date or time period or of any other provision or term of the Loan Agreement or any related document, nor an agreement to waive in the future such covenant with respect to any other date or time period or any other provision or term of the Loan Agreement or any related document.

4. Modification of Minimum Tangible Net Worth Covenant. The portion of Section 5 of the Schedule to the Loan Agreement that currently reads:

"Minimum Tangible Net Worth:	(a) Borrower shall maintain, at the Borrower level only and not consolidated with any subsidiaries, a Tangible Net Worth of not less than: (i) $6,100,000, for each month during the period commencing January 1, 2003 and ending on March 31, 2003; (ii) $5,100,000, for each month during the period commencing April 1, 2003 and ending on June 30, 2003; (iii) $5,000,000, for each month during the period commencing July 1, 2003 and ending on September 30, 2003; and (iv) $5,000,000, for each month during the period commencing October 1, 2003 and ending on December 31, 2003; and (b) Borrower shall maintain, on a consolidated basis, a Tangible Net Worth of not less than: (i) $6,900,000, for each month during the period commencing January 1, 2003 and ending on March 31, 2003; (ii) $6,700,000, for each month during the period commencing April 1, 2003 and ending on June 30, 2003; (iii) $6,900,000, for each month during the period commencing July 1, 2003 and ending on September 30, 2003; and (iv) $7,400,000, for each month during the period commencing October 1, 2003 and ending on December 31, 2003."

, hereby is amended and restated in its entirety to read as follows:

"Minimum Tangible Net Worth:	(a) Borrower shall maintain, at the Borrower level only and not consolidated with any subsidiaries, a Tangible Net Worth of not less than $3,800,000, for each month during the period from and after October 1, 2003; and

(b) Borrower shall maintain, on a consolidated basis, a Tangible Net Worth of not less than $6,500,000, for each month during the period from and after October 1, 2003."

5. Financial Reporting. The following hereby is added to the end of Section 6 of the Schedule to Loan Agreement (following, and separate from, the last numbered item therein):

With respect to the financial statements and operating budgets referred to above in this Section 6 of the Schedule, Borrower agrees to deliver such financial statements and operating budgets prepared on both a consolidated and consolidating basis, and agrees that no subsidiary of Borrower will have a fiscal year different from that of Borrower.

6. Compliance with Heller Financing Documents. Borrower hereby covenants and agrees to deliver to Silicon, no later than October 31, 2003, evidence (satisfactory to Silicon in its good faith business judgment) that all existing events of default or potential events of default under the financing documents between Heller Healthcare Finance, Inc., on the one hand, and one or more of Borrower and its subsidiaries, on the other hand, (including without limitation all such events of default that are in existence as of the date of this Amendment) have been waived (which waiver shall be on terms and conditions (if any) satisfactory to Silicon in its good faith business judgment), as of the date of Borrower's delivery of such evidence.

7. Fee. As consideration for Silicon entering into this Amendment, Borrower shall concurrently pay Silicon a fee in the amount of $25,000, which shall be non-refundable and in addition to all interest and other fees payable to Silicon under the Loan Documents. Silicon is authorized to charge said fee(s) to Borrower's loan account.

8. Representations True. Borrower represents and warrants to Silicon that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct.

9. General Provisions. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Silicon and Borrower, and the other written documents and agreements between Silicon and 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 Silicon and Borrower, shall continue in full force and effect and the same (as so amended, if applicable) are hereby ratified and confirmed.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date first above written.

Borrower:

DIGIRAD CORPORATION

By *__/s/ Illegible__*
CFO

By Vera Pardee, Illegible
Secretary or Ass't Secretary

Silicon:

SILICON VALLEY BANK

By _____
Title _____

CONSENT

The undersigned acknowledges that the undersigned's consent to the foregoing Amendment is not required, but the undersigned nevertheless does hereby consent to the foregoing Amendment and to the documents and agreements referred to therein and to all future modifications and amendments thereto, and any termination thereof, and to any and all other present and future documents and agreements between or among the foregoing parties. Nothing herein shall in any way limit any of the terms or provisions of the guaranty of each of the undersigned in favor of Silicon relative to Borrower, which guaranty is hereby ratified and affirmed by each of the undersigned.

Digirad Imaging Solutions,
a Delaware corporation formerly
known as Orion Imaging Systems, Inc.

By /s/ Illegible
Title CFO

Digirad Imaging Systems, Inc.,
a Delaware corporation

By *s/ Illegible*
Title CFO

DIGIRAD CORPORATION

June 11, 2002

David M. Sheehan
Co-Chief Executive Officer
Digirad Corporation
9350 Trade Place
San Diego, CA 92126-6334

Dear Mr. Sheehan:

The purpose of this letter is to describe the terms and conditions pursuant to which you and certain other members of senior management of Digirad Corporation (the "Company") will be compensated in connection with your continued employment with the Company and/or its wholly-owned subsidiary, Digirad Imaging Solutions, Inc. ("DIS").

1. Cash Bonus Awards.

a. Payment of Cash Bonus. In the event that you have continued in Service (as hereinafter defined) to the Company and/or DIS on each of June 17, 2002, September 30, 2002 and December 31, 2002 (each date, a "Cash Bonus Eligibility Date"), you will be entitled to be paid a cash bonus in the amount of Twenty-Five Thousand Dollars ($25,000) (the "Cash Bonus") on each of June 17, 2002, October 15, 2002 and January 15, 2003, respectively (each date, a "Cash Bonus Payment Date"). As used herein, the term "Service" shall mean the continuous provision of services to the Company and/or DIS by you in the capacity of an employee, a non-employee member of the board of directors, a consultant or an independent advisor.

b. Eligibility for Cash Bonus. Should your Service terminate before any Cash Bonus Eligibility Date by reason of (i) your voluntary resignation or (ii) a Termination for Cause (as hereinafter defined), you will not be entitled to receive any further Cash Bonus on any future Cash Bonus Payment Date pursuant this paragraph 1. Should your Service terminate before any Cash Bonus Eligibility Date for any reason other than (i) your voluntary resignation or (ii) a Termination for Cause, you will still be entitled to receive a Cash Bonus on each remaining Cash Bonus Payment Date. Should the Company consummate an Acquisition (as hereinafter defined) on or before any Cash Bonus Eligibility Date, you will not be entitled to receive any further Cash Bonus on any future Cash Bonus Payment Date pursuant to this paragraph 1.

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c. Termination for Cause. As used herein, "Termination for Cause" shall mean the termination of your Service for one or more of the following reasons: (i) your commission of any act of fraud, embezzlement or dishonesty, (ii) your willful and material misappropriation of the assets of the Company and/or DIS or (iii) any other intentional misconduct on your part adversely affecting the business or affairs of the Company and/or DIS in a material manner. The foregoing definition will not in any way preclude or restrict the right of the Company and/or DIS to discharge or dismiss you for any reason, provided, however, that such reasons will not be deemed, for purposes of this letter agreement, to constitute grounds for Termination for Cause.

2. Acquisition Bonus Awards.

a. Payment of Acquisition Bonus. In the event that at any time on or before June 30, 2004, the Company receives Acquisition Proceeds (as hereinafter defined) in connection with the consummation by the Company of one or more Acquisitions (as hereinafter defined), you, John Dahldorf and other members of senior management (as determined by you and John Dahldorf in your discretion, with the consent and approval of the Compensation Committee of the Board of Directors) will be entitled to receive an aggregate bonus (the "Acquisition Bonus") in connection with the Company's receipt of Acquisition Proceeds. The aggregate amount of the Acquisition Bonus to be paid to you, Mr. Dahldorf and other members of senior management shall be a single amount (i) not less than Four Hundred Thousand Dollars ($400,000) and (ii) not greater than that amount which is ten percent (10%) of any Acquisition Proceeds received by the Company in excess of Thirty Million Dollars ($30,000,000). Any Acquisition Bonus paid may be distributed among you, Mr. Dahldorf and the other members of senior management in the discretion of you and Mr. Dahldorf, with the consent and approval of the Compensation Committee of the Board of Directors.

b. Eligibility for Acquisition Bonus. You and any member of senior management will only be entitled to receive a portion of any Acquisition Bonus awarded pursuant to this paragraph 3 if you and/or any such member of senior management have continued in Service through the effective closing date of such Acquisition. Should your Service terminate before the effective closing date of a transaction constituting an Acquisition by reason of (i) your voluntary resignation or (ii) a Termination for Cause (as previously defined), you will not be entitled to receive any Acquisition Bonus in connection with the respective Acquisition pursuant to this paragraph 3. In the event that, during the sixty (60) day period prior to the effective closing date of an Acquisition, your Service should terminate for any reason other than (i) your voluntary resignation or (ii) a Termination for Cause, you will still be entitled to receive the Acquisition Bonus to be paid in connection with the consummation of the respective Acquisition; provided, however, that you will not be entitled to receive any portion of an Acquisition Bonus which may be distributed in connection with any future Acquisition which is consummated on or before June 30, 2004.

c. Form of Acquisition Bonus. Any Acquisition Bonus awarded pursuant to this paragraph 3 will be paid to you and any members of senior management in the same form and upon the same date as Acquisition Proceeds are paid to the Company and/or DIS or to the holders of the outstanding securities of the Company and/or DIS, as the case may be.

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d. Definitions.

(i) "Acquisition" shall mean any of the following transactions pursuant to which assets or securities of the Company and/or DIS are acquired for consideration paid in cash, securities or other property:

(a) a merger, consolidation or other similar transaction approved by the stockholders of the Company and/or DIS, as the case may be, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the outstanding voting securities of the Company and/or DIS, as the case may be, immediately prior to such transaction, or

(b) the sale, transfer or other disposition of all or substantially all of the property or assets of the Company and/or DIS, as the case may be (including, without limitation, the sale, transfer or other disposition of all or substantially all of the Company's assets used in the design, manufacture and sale of digital gamma cameras); provided, however, that the foregoing definition shall not apply to the sale by the Company of its goods (including, without limitation, its digital gamma cameras) in the ordinary course of business, or

(c) the direct sale by the stockholders of the Company and/or DIS, as the case may be, of securities possessing more than fifty percent (50%) of the total combined voting power of the outstanding securities of the Company or DIS, as the case may be (except in connection with capital raising transactions), to a person or persons different from the persons holding those securities immediately prior to such sale.

(ii) "Acquisition Proceeds" shall mean the following items of consideration (in cash, securities or other property) paid by the acquiring person or persons in effecting the Acquisition:

(a) for an Acquisition effected by a merger, consolidation, or other similar transaction or by the direct purchase of the outstanding securities of the Company and/or DIS, as the case may be, the aggregate amount of consideration (valued at fair market value) paid to the holders of the outstanding securities of the Company and/or DIS, as the case may be, in acquisition of their stockholder interests, or

(b) for an Acquisition effected by the purchase of all or a material portion of the assets of the Company and/or DIS, the portion of the consideration (valued at fair market value) paid to the Company for those assets.

3. Performance Bonus Awards.

a. Payment of Performance Bonus. Provided that you have continued in Service to the Company and/or DIS on and through December 31, 2002, you will be entitled to be paid a cash bonus (the "Performance Bonus"), in an amount representing a certain percentage

of base salary and determined based upon the Company's receiving (a) certain amounts of "revenue" during the year ended December 31, 2002 (as indicated below), and (b) certain amounts of "cashflow" during the third and fourth quarters for the year ended December 31, 2002 (as indicated below), such amounts of cash flow not to be increased by expanded borrowing or extended accounts payable outside of the ordinary course of the Company's business:

Revenue Achieved (FY'2002)	Amount of Performance Bonus
90% of $38.66MM	(45% of base salary) times 0.5
100% of $38.66MM	(50% of base salary) times 0.5
105% of $38.66MM	(62.5% of base salary) times 0.5
110% of $38.66MM	(75% of base salary) times 0.5
120% of $38.66MM	(87.5% of base salary) times 0.5
125% of $38.66MM	(112.5% of base salary) times 0.5
130% of $38.66MM	(125% of base salary) times 0.5

Cashflow Achieved (Q3 - Q4)	Amount of Performance Bonus
$(3.2)MM	(45% of base salary) times 0.5
$(2.8)MM	(50% of base salary) times 0.5
$(2.2)MM	(62.5% of base salary) times 0.5
$(1.5)MM	(75% of base salary) times 0.5
$(0.9)MM	(87.5% of base salary) times 0.5
$(0.3)MM	(100% of base salary) times 0.5
$0.4MM	(112.5% of base salary) times 0.5
$1.0MM	(125% of base salary) times 0.5

The determination as to whether the Company has achieved the foregoing thresholds relating to "revenue" or "cashflow" (as accounted for in the V1B plan as approved by the Company's Board of Directors) shall be made by reference to the Company's financial statements for the year ended December 31, 2002, as prepared in accordance with generally accepted accounting principals ("GAAP") and the Company's standard accounting practices.

b. Eligibility for Performance Bonus. Should your Service terminate on or before December 31, 2002 by reason of (i) your voluntary resignation or (ii) a Termination for Cause (as previously defined), you will not be entitled to receive any Performance Bonus pursuant this paragraph 3. Should your Service terminate on or before December 31, 2002 for any reason other than (i) your voluntary resignation or (ii) a Termination for Cause, you will still be entitled to receive a Performance Bonus pursuant to this paragraph 3.

4. Stock Option Grants. Upon the final closing of the Company's sale and issuance of shares of its Series H Preferred Stock ("Series H Closing"), and following the appropriate increase to the Company's stock option pool, you and other members of senior management (as determined by you

and approved by the board of directors) will be granted stock options to purchase shares of the Company's common stock under the Company's stock option/stock issuance plan pursuant to the following terms and conditions.

a. Number of Options. The number of shares of common stock underlying the stock option granted to you shall represent approximately three percent (3%) of the outstanding shares of the Company's common stock (on an as-converted basis) following the Series H Closing.

b. Option Pool. The Company's stock option/stock issuance pool shall constitute approximately ten percent (10%) of the outstanding shares of the Company's common stock (on an as-converted basis) following the final closing of the Company's sale and issuance of shares of its Series H Preferred Stock.

c. Exercise Price. Each option will have an exercise price per share equal to ten percent (10%) of the final price per share of the Company's Series H Preferred Stock (as reflected in the Company's Amended and Restated Certificate of Incorporation and as adjusted for stock splits and combinations).

d. Option Type and Term. The options granted hereunder will be incentive stock options under the federal tax laws, to the maximum extent allowable, and the balance will be a non-statutory options. The options will have a maximum term of ten (10) years, subject to earlier termination following cessation of employment.

e. Vesting of Options. Fifty percent (50%) of the shares of common stock covered under the option granted to you will vest as of December 31, 2002 and the remaining fifty percent (50%) will thereafter vest beginning January 1, 2003 in equal daily installments over the next two (2) years. Notwithstanding the foregoing, however, one hundred percent (100%) of the shares of common stock covered under the option granted to you and any other member of senior management will immediately vest upon an Acceleration Event (as hereinafter defined).

f. Acceleration Event. As used herein, an "Acceleration Event" shall mean the consummation of one of the following transactions pursuant to which assets or securities of the Company and DIS are acquired for consideration paid in cash, securities or other property:

(i) a merger, consolidation or other similar transaction approved by the stockholders of the Company, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the outstanding voting securities of the Company, as the case may be, immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all or substantially all of the property or assets of the Company and DIS; or

(iii) the direct sale by the stockholders of the Company of securities possessing more than fifty percent (50%) of the total combined voting power of the outstanding securities of the Company (except in connection with capital raising transactions), to a person or persons different from the persons holding those securities immediately prior to such sale.

5. Parachute Payments. In the event that any payments to which you or any member of senior management become entitled in accordance with the provisions of this letter agreement would otherwise constitute a parachute payment under Section 280G of the Internal Revenue Code, then such payments will be subject to reduction to the extent necessary to assure that you receive the greater of (i) the amount of those payments which would not constitute such a parachute payment or (ii) the amount which yields you the greatest after-tax amount of benefits after taking into account any excise tax imposed on the payments provided to you under this letter agreement pursuant to Section 4999 of the Internal Revenue Code. However, provided certain conditions are met, payments that would otherwise be subject to the provisions of Sections 280G and 4999 of the Internal Revenue Code may be exempt from those rules, if the stockholders approve those payments.

6. Miscellaneous.

a. Limitations. This letter agreement will in no way affect the right of the Company and/or DIS 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.

b. Withholding. If applicable, all payments under this letter agreement shall be subject to the Company's collection of all applicable federal, state and local income and employment taxes required to be withheld therefrom.

c. Transfer of Rights. Any rights or interests granted hereunder may not be transferred, assigned, pledged or encumbered, other than a transfer effected by will or the laws of inheritance following your death.

d. Amendment and Termination. The Board of Directors may amend or terminate this letter agreement only with your prior written consent.

e. At Will Employment. No provision of this letter agreement will confer any right upon you to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the right of the Company or your right to terminate your Service at any time for any reason, with or without cause.

f. Governing Law. The provisions of this letter agreement will be governed by and construed in accordance with the laws of the State of California without resort to its conflict-of-laws rules.

g. Assignment. The liabilities and obligations of the Company under this letter agreement will be binding upon any successor corporation or entity which succeeds to all or substantially all of the assets and business of the Company by merger or other transaction, whether or not such transaction qualifies as an Acquisition.

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We ask that you acknowledge your receipt of this letter agreement and your acceptance of its terms and conditions by signing and dating this letter agreement as soon as possible.

Very truly yours,

/s/ Timothy J. Wollaeger

Timothy J. Wollaeger
Chairman of the Compensation Committee
The Board of Directors of Digirad Corporation

Acknowledged and Agreed:

/s/ David M. Sheehan

David M. Sheehan

Dated: June 11, 2002

EXHIBIT 10.25

*** CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT (INDICATED BY ASTERISKS) HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT UNDER 17 C.F.R. SECTIONS 200.80(B)(4), 200.83 AND 230.406.

AGREEMENT FOR SERVICES

THIS **AGREEMENT FOR SERVICES** is made and entered into on the 5th day of May, 2003, but effective for all purposes as of the 1st day of April, 2002 (the "Effective Date"), by and between **DIGIRAD IMAGING SOLUTIONS, INC.**, a Delaware corporation (the "Client" or "DIS"), and **MBR AND ASSOCIATES, INC.**, a Florida corporation ("MBR").

WHEREAS, MBR is a corporation engaged in the business of providing certain management, financial, billing, collection, accounting, bookkeeping, regulatory compliance, and other related consulting financial services for healthcare clients (generally, the "Services"); and

WHEREAS, the Client is in the healthcare business and has engaged MBR in the past to provide certain selected Services to the Client, and the Client and MBR are willing to continue their business relationship on the terms and conditions set forth herein beginning as of the Effective Date.

NOW, THEREFORE, in consideration of the premises and of the promises and agreements of the parties set forth below, and for other good and valuable consideration, the parties agree as follows:

1. **SERVICES TO BE RENDERED**:

A. As part of the compensation set forth in section 2.A., MBR agrees to provide billing and collections services, up to and including the following designated Services to and for the Client:

(1) Prepare and submit insurance claims to Medicare and other third party payors, as applicable, and bill patients for applicable copayments.

(2) Prepare and submit bills to all customers, including physicians, medical groups, facilities, hospitals, MSO's and other customers;

(3) Print and mail statements;

(4) Provide month-end billing reports;

(5) Provide HCFA/CMS Forms, envelopes, statements, and return envelopes;

(6) Update procedure codes;

(7) Post payments and adjustments;

(8) Make bank deposits into Client's account;

(9) Review outstanding accounts and advise Client of status;

(10) Respond to telephone and other inquiries relating to billing and collection services;

(11) Enter charge data;

(12) Notify Client immediately in writing of any notices of audit, requests for medical records or other documentation or information out of the normal course of business from representatives of Medicare, Medicaid or private payors, or of any significant pattern of payor denials or downcodings;

(13) Assist the Client with any reviews or audits of claims submitted or billing practices by a federal, state or local regulatory agency or their contractors which occur in the normal course of business. Additional consulting services required for any extraordinary audits will be provided under Section 1.C;

(14) Provide electronic and physical reports and access to data, at a detailed level, in order to properly account for each transaction, credits and adjustments. All information and access will be agreed upon by both parties;

(15) Adopt and comply with a compliance plan, which is consistent with the OIG's Compliance Program Guidance for Third Party Billing Companies, to insure that MBR and MBR's employees abide by all applicable federal and state statutes, regulations, and rules relating to (i) its billing and collecting for all applicable services hereunder, and (ii) maintaining the privacy and confidentiality of patient medical information in its possession;

B. In addition, as part of the compensation set forth in section 2.B., MBR agrees to periodically prepare a list of accounts which, in its judgment, are uncollectible, or in need of collection action. Upon receipt of such list, the Client shall have the opportunity to advise MBR as to which accounts on said list are to be transferred to a collection agency, and MBR will follow any instructions given, or take such actions as it deems proper if no instructions are given within five (5) days of the list being delivered to the Client. MBR shall select the collection agency, including itself, to which such

accounts shall be transferred provided that the Client shall retain the right to approve or disapprove such selection on a reasonable basis. MBR shall monitor the actions of the collection agency and provide monthly status summaries to the Client with any recommendations as to bad debt write offs. MBR shall negotiate a market fee with the selected collection agency (including MBR, but with Client approval) for collecting such accounts, and MBR will not be entitled to any fee under section 2.A. with respect to any amounts collected by such collection agency.

C. In addition, as part of the compensation set forth in section 2.B., MBR agrees to provide the Client with consultation services in the following areas: regulatory compliance (including but not limited to Medicare compliance), managed care contracting, and credentialing of providers. All such consulting services shall be requested at the sole discretion of the Client, in writing and may include items as listed below:

(1) Prepare and update Medicare 855 enrollment forms with information provided by Client;

(2) Assist and consult the Client with any extraordinary reviews or audits by a federal, state or local regulatory agency or their contractors beyond responding to normal course of business assistance as listed under Section 1.A.

D. During the term of this Agreement, MBR may retain Client's records in a secure off-site storage facility. Upon termination or expiration of this Agreement, Client will notify MBR of where to have its records delivered after the ninety-day collection period. MBR will not be responsible for these records after delivery to the Client.

2. **COMPENSATION TO MBR**: The Client agrees to pay MBR as follows (all of which fees may be retained by MBR directly from collections received on behalf of the Client):

A. For Services under Section 1.A. above, (i) *** *** *** *** *** . Both the Client and MBR will diligently work to further reduce the average days-sales-outstanding (DSO), targeting an average level of no more than 70 days. The Client and MBR will review the DSO progress on a quarter basis and assess areas of improvement. The Client and MBR, collectively, will establish a financial objective and DSO minimum threshold, starting April 1, 2004.

B. For Services under Section 1.C. above and anything outside the other services listed in Section 1, *** , listed on Exhibit A and *** for other employees, plus reimbursement of MBR's direct expenses (including travel, room and board, telephone calls, courier charges, equipment, and outside consultants) with respect to such Services. All such services are to be pre-approved, in writing by the Client.

C. Special projects as agreed between the parties.

MBR will submit monthly or more frequent statements for its Services under this Agreement. All amounts billed to the Client under this Section 2 are due and payable by the Client to MBR within forty-five (45) days from the Client's scheduled month-end for the Services performed (or cash collected) by MBR since the prior scheduled month-end, provided that in no event shall payment be due less than ten (10) days from the date the invoice is received. Invoices that are not paid when due will incur a late charge of 1-½% per month (or part thereof) of the amount due, except that interest shall not accrue on any amount which is reasonably disputed, provided that all undisputed amounts are paid. In the event any refund or recoupment occurs after MBR has been

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

paid for such Services, Client shall be entitled to a refund of the fees paid for such Services, which refund shall be credited to next bill or recoupment, not to exceed 30 days, otherwise, refund is to be repaid to Client within thirty days of such refund or recoupment.

In addition to the foregoing, MBR shall be reimbursed for its out-of-pocket expenses for postage and overnight courier and delivery charges that are incurred by MBR in connection with sending and receiving information for and behalf of Client in connection with MBR's performing the services described in Section 1, including, without limitation, for billing and collection purposes.

3. **TERM**: The initial term of this Agreement shall be for three (3) years from the Effective Date, and thereafter the term shall automatically renew for consecutive one (1) year terms unless either party, upon ninety (90) days written notice prior to the end of the current one-year renewal term, informs the other party of its intention to terminate the Agreement at the end of the current term. Either party shall have the right to terminate this agreement at anytime, without cause, upon one-hundred eighty (180) days written notice, but no such notice shall be given prior to October 1, 2003. MBR shall have the right to bill and collect for all of the Services performed by MBR until the actual date of termination, and MBR agrees to remain available to render such Services for the compensation set forth in Section 2 for up to one hundred eighty (180) days after expiration of the ninety (90) day notice period and to cooperate on a reasonable basis to facilitate a smooth transition of such Services to the Client or to another person designated by the Client. MBR shall be entitled to its fees on all Services performed by MBR, including with respect to collections on accounts that were billed by MBR prior to termination, but received within one hundred twenty (120) days after being billed by MBR.

After the termination of this Agreement and the payment of all amounts due MBR, billing and management information and related nonproprietary software, including, without limitation, PCN licensed software (if and only if Client has PCN licensed software) shall be sent to Client with a back-up tape and printed report. A back-up tape of all billing information relating to this Agreement shall be prepared and stored in a safe place by MBR on a weekly or more frequent basis. Client, at its expense, reserves the right to review and audit MBR's billings and collections infrastructure, back-up process and any other processes deemed to be more than di minimis in nature and relating to the Client's relationship with MBR. Such review and audit shall be at a time mutually agreed upon by both parties, which agreement shall not be unreasonably withheld.

4. **EXPENSES AND LICENSES**: Each party is responsible for obtaining and maintaining, at its expense, all licenses, permits, or other items necessary to conduct its business, including all required insurances and bonding.

5. **NON-SOLICITATION; NO HIRING**: Both parties agree that during the term of this Agreement, and for ninety (90) days thereafter, regardless of the reason for the termination, neither party (or any affiliate of a party) will hire, or attempt to hire, or solicit for employment, any employee or independent contractor of the other party used in performing the Services.

6. **CONFIDENTIALITY**: Both parties mutually recognize and acknowledge that the clients, services, and methods of operation are valuable, special, and unique assets of such business. The parties further recognize and acknowledge that all business information,

proprietary files, records, analyses, compilations, studies or opinions, financial statements, customer lists, lists of business acquaintances, processes, techniques, services, intellectual property, programming, techniques of application, concepts, purchasing, accounting, marketing, selling, recording of any activity disclosed to each other in connection with MBR's performance under this Agreement are confidential information. Both parties shall keep in strict secrecy and confidence all information that each part assimilated or obtained or to which either party had access during the term of this Agreement for any reason or purpose without the prior written consent of the other party. These terms and conditions shall survive the term of this Agreement.

Each party shall keep confidential all information relating to billing and financial information with respect to the Client and its affiliates, except to the extent reasonably needed to facilitate the services to be rendered under this Agreement or as required by law.

Each party shall comply with all applicable federal and state statutes, regulations, and rules relating to privacy and confidentiality of patient medical information.

7. **INSURANCE**: At all times during the term of this Agreement, MBR shall, at its expense, obtain, keep in force and maintain (i) workers' compensation and (ii) comprehensive or commercial form general liability insurance and errors and omission (contractual liability included) in a form and with an insurance carrier satisfactory to Client, with coverage limits (in the case of the general liability insurance) of at least One Million Dollars ($1,000,000) per occurrence and Two Million Dollars ($2,000,000) annual aggregate. If the above insurance is written on a claims-made form, it shall continue for no less than three (3) years following termination of this Agreement. The coverage and limits described above shall in no way limit any liability of MBR. To the extent available without significant surcharge, MBR will cause Client to be named as an additional insured on MBR's general liability insurance policy. As evidence of MBR's coverage, MBR shall furnish to Client certificates of insurance under these policies prior to the effective date and annually thereafter, which shall include a provision for at least a thirty (30) day prior written notice of cancellation or reduction directed to the attention of both Client and the Compliance Officer. MBR shall maintain and provide Client with evidence of a minimum of One Million Dollars ($1,000,000) fidelity bonding for itself and its employees and Client Personnel involved in the handling of accounting for the monies of Client. The Client shall furnish MBR proof of general liability insurance, errors and omissions insurance, directors insurance and fidelity bonding.

8. **PERSONNEL**: All personnel providing Services hereunder shall be trained and qualified to perform their applicable duties, and none of them shall be excluded or suspended from Medicare, Medicaid or any other governmental payment program. MBR shall notify Client in the event of the exclusion or suspension of any such personnel whereupon, Client shall have the options of demanding that the affected person(s) be removed immediately, whereupon if MBR does not do so within thirty (30) days, Client may terminate this Agreement upon written notice.

9. **BREACH**: If either party commits a material breach of this Agreement, then the other party may give written notice specifying the nature of the breach. If the party receiving sh notice does not substantially remedy such breach within twenty (20) business days after its receipt of such notice, then the party who has sent such notice shall have the right immediately to

terminate this Agreement and/or to seek appropriate remedies as provided in this Agreement or otherwise.

10. **CLIENT'S OBLIGATIONS**:

A. The Client agrees to make available to MBR all records necessary for performing the Services hereunder. The Client will communicate with MBR, in a timely manner, as reasonably necessary for MBR to perform the Services hereunder, provided that all such communications between the parties will be in writing.

B. The Client covenants that the patient account card submitted for billing and collection will contain all billing information required for the completion and submission of claims, including, but not limited to, current patient name and address, code numbers, procedure, time, face sheet and insurance card copies, etc., and including other information necessary in the billing and collection procedures.

C. The Client agrees to maintain a checking account reasonably acceptable to MBR to be exclusively for business purposes and into which collections made hereunder shall be deposited.

D. The Client agrees that MBR is its exclusive agent for billing and collecting its accounts and that it will provide to MBR all accounts accumulated in its business during the term of this Agreement for processing by MBR. Client agrees to provide the complete information necessary to bill each physician flat fee contract, leased physician client, and/or patient/physician mixed billing method, including, but not limited to, current patient name and address, copy of insurance cards front and back, written procedures, CPT codes, HCPCS codes, ICD9M codes, time and date of service and other information available to Client and necessary in the billing and collection process. Any information delivered not in compliance shall require the respective facility to be called or returned to Client for completion.

E. The Client authorizes MBR to provide training to the employees of Client, identified by Client, who are responsible for data collection, copying, and forwarding to MBR. Such training will be part of the set-up cost and be provided at no additional cost to the Client's employees at the time of execution of this Agreement. If the Client hires or replaces staff who require training, the additional training will be billed at the rate of ***.

F. The Client agrees that it will not market, broker, sell, or re-sell MBR's services to any other person (including, without limitation, customers or clients of the Client) without MBR's prior written consent.

11. **CLIENT'S REPRESENTATIONS**: Client represents, warrants, and covenants that:

A. Client is duly organized and exists in good standing under the laws of the State of Delaware and is qualified to do business in each state in which Client is required to be so qualified.

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the commission.

B. Neither the execution nor the consummation of the transactions contemplated by this Agreement will conflict with or result in a breach of performance required by the provisions for any other agreement or contract to which the Client is a party.

C. Client has adopted a compliance plan or plans to insure that Client and Client's employees abide by all applicable federal and state statutes, regulations, and rules relating to (i) its providing or arranging for healthcare services, (ii) its marketing to its customers and prospective customers, (iii) its billing and collecting for all such services, and (iv) maintaining the privacy and confidentiality of patient medical information in its possession.

D. Throughout the term of this Agreement, Client and Client's employees shall comply with its compliance plan or plans and with all applicable federal, state, or local laws governing its business and professional practice and employees.

E. Throughout the term of this Agreement, all of Client's personnel providing information or working with MBR in connection with the Services hereunder, shall be trained and qualified to perform their applicable duties. None of Client's personnel shall be excluded or suspended from Medicare, Medicaid or any other governmental payment programs.

F. None of Client's employees, contractors, clients, or customers is, has been, or will be, during the term of this Agreement, excluded or suspended from Medicare, Medicaid, or any other governmental payment program. The Client will include in its contracts with all physicians under which MBR shall bill and collect for such services entered into after April 15, 2003 physician representation language that the physicians and any of their participating personnel in the services under contract, are not excluded or suspended from Medicare, Medicaid or any other governmental payment programs.

12. **INDEPENDENT CONTRACTOR STATUS**: It is understood and agreed that the services of MBR have been and will be rendered as an independent contractor and not as an employee, agent, or representative of Client. In this regard, neither MBR nor any of its employees or agents shall be deemed for purposes of this Agreement to be employed by Client for purposes of any tax or contribution levied by the Federal Social Security Act or any corresponding state law with respect to employment or compensation for employment, and MBR will file all forms and pay all taxes and other amounts required of an independent contractor.

MBR shall have complete control over its method of providing services, subject to the requirements of this Agreement and applicable law. Client will not exercise direct or implied authority over MBR in its work nor shall it have supervisory power over MBR or any of its employees or agents, other than to assure MBR's adherence to the terms of this Agreement. Neither party shall have any responsibility for, or liability as a result of, any action, inaction, error or omission by the other.

13. **REVIEWS AND AUDITS**: Client shall, upon reasonable notice and conditions, be allowed to review any and all of the documentation, procedures and information concerning Client's billing and to appoint a third party consultant to review such billing on the premises of MBR, all at Client's sole expense. MBR agrees to cooperate with any review. MBR may impose reasonable standards and restrictions on any such audit and review to insure the

privacy or patient medical information of patients who are not Client's patients. MBR will review any reports upon such billing procedures, suggestions for improvement or otherwise and will exercise good faith in maintaining an acceptable level of efficiency and accuracy in its billing procedures. Any and all information obtained under review shall be kept confidential except as required to comply with Client's legal obligations.

14. **INDEMNIFICATION**: Each party (the "Indemnifying Party") hereby agrees to indemnify and hold the other party, including its directors, officers, shareholders, employees, and agents (collectively, the "Indemnified Party") harmless from and against any losses, claims, damages, or expenses, and all reasonable costs of prosecution or defense regarding its rights hereunder, whether in judicial proceedings, including appellate proceedings, or out of court, including, without limiting the generality of the foregoing, attorneys' fees and all costs and expenses of litigation (collectively, a "Loss"), arising from or growing out of a material violation of the terms of this Agreement or negligent or willful misconduct by the Indemnifying Party.

15. **MEDIATION AND ARBITRATION**: It is the intention of all parties that no dispute under this Agreement or with respect to relationship between parties will be the subject of any court action or litigation in the local, state, or federal judicial system. The parties recognize that the problem resolution processes of mediation and arbitration are appropriate and preferable to resolve issues between the parties. If any party hereto wishes to resolve an issue under or relating to this Agreement, then such party must give notice of a request for mediation to the other parties, which notice shall set forth the names of not less than three (3) mediators from the panel of JAMS/Endispute or the American Arbitration Association or other mutually agreed upon alternative dispute resolution service in Hillsborough County if mediation is commenced by Digirad or in San Diego County if mediation is commenced by MBR. The party receiving such notice shall agree upon one or more such mediators with ten (10) days of receipt of such notice and a mediation will be

scheduled as soon as feasible between the parties and their respective advisors, and the parties and their advisors will cooperate fully with respect to sharing of information and attendance at meetings in order to seek resolution. The parties will share mediation expenses with the party requesting the mediation, paying one-half of such expense of the mediator fees and the other party paying the other one-half of such expenses. If resolution of the matters between the parties cannot be resolved in mediation within twenty (20) days of the selection of a mediator by the party receiving such notice, then the matter shall be presented to formal arbitration pursuant to the rules utilized by the alternative dispute resolution service selected by an arbitrator from such service's panel agreed upon by the parties or, if the parties are unable to agree upon an arbitrator within ten (10) days of the completion of mediation, by a panel of three (3) arbitrators from such panel selected by such service's administrator. Arbitration shall take place in the venue in which the mediation shall have occurred as soon as possible and the decision of the arbitrator panel shall be binding upon the parties for all purposes. The party which does not prevail in such proceeding or in any judicial proceeding shall pay all reasonable fees and costs, including attorneys' and expert witness fees, incurred by the prevailing party relating to such proceeding, except that the arbitrator shall have discretion to reduce or eliminate such award of costs and fees if such award would be inequitable or unreasonable under the circumstances. It is the intention of the parties that this Agreement shall be construed and interpreted in a fair and equitable manner based upon the facts and

circumstances of the parties taking into account the present intention of the parties to have a fair and equitable agreement under the terms and conditions set forth in this Agreement.

16. **ENFORCEMENT**: Each covenant shall be construed as a covenant independent of any other covenant or provision of this Agreement or any other Agreement which MBR and Client may have, and the existence of any claim or cause of action of one party against the other, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement of such covenants.

17. **TERMINATION**: During the term of this Agreement, MBR may retain Client's records in an off-site storage facility. Upon termination or expiration of this Agreement, Client will notify MBR of where to have its records delivered after the ninety-day (90) collection period. MBR will not be responsible for these records after delivery to the Client.

18. **ADDITIONAL COVENANTS OF MBR**: MBR covenants that it has and will maintain its expertise, procedures and employee training with respect to billing and reimbursement issues, coding, maximizing revenues in a prudent manner, and other billing related activities. MBR agrees to provide monthly reporting of billings, receipts, aged receivables, and such other matters as are requested by the Client on a reasonable basis. MBR will maintain such insurances with reputable insurance carriers in such amounts and upon terms that are deemed reasonable and appropriate.

19. **COMPLIANCE WITH THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996**. The parties acknowledge that Client is subject to the Administrative Simplification requirements of the Health Insurance Portability and Accountability Act of 1996 and regulations promulgated thereunder ("HIPAA"), including but not limited to, the Standards for Privacy of Individually Identifiable Health Information, 45 CFR Parts 160 and 164; and that HIPAA mandates that Client require MBR to provide for the protection of the privacy and security of Health Information. Accordingly, MBR shall provide such protection as required by this Agreement.

A. Definitions. The following terms shall be defined as follows:

(1) "Disclose" and "Disclosure" mean, with respect to Health Information, the release, transfer, provision of access to, or divulging in any other manner of Health Information outside MBR's internal operations or to other than its employees.

(2) "Health Information" means information that (a) relates to the past, present or future physical or mental health or condition of an individual; the provision of health care to an individual; (b) identifies the individual (or for which there is a reasonable basis for believing that the information can be used to identify the individual); and (c) is received by MBR from or on behalf of Client or is created by MBR, or is made accessible to MBR by Client.

(3) "Privacy Regulations" means the Standards for Privacy of Covered Individually Identifiable Health Information, 45 CFR Parts 160 and 164, promulgated under HIPAA.

(4) "Services" means the services provided by MBR pursuant to this Agreement.

(5) "Use" or "Uses" means, with respect to Health Information, the sharing, employment, application, utilization, examination or analysis of such Health Information within MBR's internal operations.

B. Permitted Uses and Disclosures of Health Information. MBR is authorized to do the following:

(1) Use and Disclose Health Information as necessary to perform Services for, or on behalf of Client;

(2) Use Health Information to create aggregated or de-identified information (in accordance with the requirements of the Privacy Regulations);

(3) Use or Disclose Health Information (including aggregated or de-identified information) as otherwise directed by Client provided that Client shall not request MBR to Use or Disclose Health Information in a manner that would not be permissible if done by Client;

(4) Use and Disclose Health Information as required by law.

C. Other Uses of Health Information. MBR may use Health Information for the proper management and administration of MBR or to carry out its legal responsibilities. MBR may Disclose Health Information for the proper management and administration of MBR, provided that with respect to any such Disclosure either (1) the Disclosure is required by law (within the meaning of the Privacy Regulations) or (2) MBR obtains reasonable assurance from the person to whom the information is to be Disclosed that such person will hold the information in confidence and will not Use or further Disclose such information except as required by law or for the purpose(s) for which it was Disclosed by MBR to such person, and that such person will notify MBR of any instances of which it is aware in which the confidentiality of the information has been breached.

D. Adequate Safeguards for Health Information. MBR warrants that it shall implement and maintain appropriate safeguards to prevent the Use or Disclosure of Health Information in any manner other than as permitted herein or by law.

E. Mitigation. MBR agrees to mitigate, to the extent practicable, any harmful effect that is known to MBR of a Use or Disclosure of Health Information by MBR in violation of the requirements of this Agreement.

F. Reporting Non-Permitted Use or Disclosure. MBR shall not Use or Disclose Health Information except as permitted by this Agreement or as required by law. MBR shall report to Client a Use or Disclosure that is made by MBR that is not permitted by this Agreement or which MBR becomes aware.

G. Availability of Internal Practices, Books, and Records. MBR agrees to make its internal practices, books and records relating to the Use and Disclosure of Health Information available to the Secretary of the Secretary for purposes of determining Client's compliance with the Privacy Regulations.

H. Access to and Amendment of Health Information. MBR shall, to the extent Client determines that any Health Information constitutes a "designated records set" of Client under the Privacy Regulations, (a) make the Health Information specified by Client available to Client or to the individual(s) identified by Client as being entitled to access and copy that Health Information, and (b) make any amendments to Health Information that are requested by Client.

I. Accounting of Disclosures. Upon Client's request, MBR shall provide to Client an accounting of each Disclosure of Health Information made by MBR as required by the Privacy Regulations. For each Disclosure that requires an accounting under this Section 19, MBR shall securely maintain the information for six (6) years from the date of the Disclosure.

J. Use of Subcontractors and Agents. MBR shall require each of its agents and subcontractors that receive Health Information from MBR to comply with this Section 19 of this Agreement with respect to such Health Information.

K. Privacy Notice. Client shall notify MBR of any limitations(s) in Client's notice of privacy practices to the extent such limitation(s) may affect MBR's Use or Disclosure of Health Information.

L. Changes or Restrictions. Client shall notify MBR of any changes in permission by an individual to use or disclose Health Information to the extent such change may affect MBR's Use or Disclosure of Health Information. Client shall notify MBR of any restriction to which Client agrees that may affect MBR's Use or Disclosure of Health Information.

M. Disposition of Health Information Upon Termination or Expiration. Upon termination or expiration of this Agreement, MBR shall either return or destroy all Health Information in the possession or control of MBR and its agents and subcontractors. In such event, MBR shall retain no copies of such Health Information. However, if MBR determines that neither return nor destruction of Health Information is feasible, MBR shall notify Client of the conditions that make return or such destruction infeasible, and may retain Health Information provided that MBR (1) continues to comply with the provisions related to the protection of Health Information for as long as it retains Health Information, and (2) further limits the Uses and Disclosures of Health Information to those purposes that make the return or destruction of Health Information infeasible.

N. Amendments to Comply With Law. The parties acknowledge that state and federal laws relating to electronic data security and privacy are rapidly evolving and that amendment of this Agreement may be required to provide for procedures to ensure compliance with such developments. The parties specifically agree to take such actions as is necessary to implement the standards and requirements of HIPAA and other applicable laws relating to the security or confidentiality of Health Information.

20. **MISCELLANEOUS**:

A. This Agreement shall constitute the entire agreement of the parties and takes the p lace o f t he prior written agreement between the p arties dated January 3 0, 2 001 (the " Prior Agreement") as of the Effective Date. It may not be changed orally, but only by agreement in writing signed by both parties.

B. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by (i) certified or registered mail, return receipt requested, (ii) hand delivery or overnight courier with proof of delivery, or (iii) facsimile transmission with confirmation of receipt, to the parties as follows:

If to MBR: 4519 George Road, Suite 100
Tampa, Florida 33634
Facsimile No.: (813) 496-8546
ATTENTION: Becky Cacciatore, President

If to Client: 9350 Trade Place

San Diego, California 92126-6334
Facsimile No.: (858) 549-7714
ATTENTION: PRESIDENT OR CHIEF FINANCIAL OFFICER

C. The rights and obligations of the parties under this Agreement shall inure to the benefit of and shall be binding upon their respective heirs, executors, administrators, sublessors and assigns. No party may assign any of its rights, obligations or interest in this Agreement without the prior written consent of all parties to this Agreement.

D. This Agreement shall be governed by the laws of the State of Florida.

E. This Agreement shall be deemed to have been "executed" when the last party to sign this Agreement has affixed his, her or its signature at the end of this Agreement.

F. All parties to this Agreement specifically agree to act in good faith in interpreting this Agreement and in carrying out their respective duties and obligations hereunder.

G. This Agreement may be executed in multiple counterparts, each of which shall be considered an original, and all of which shall constitute but a single agreement notwithstanding that each such counterpart is executed on a different date.

H. Because each party has participated fully in the drafting and preparation of this Agreement, the Agreement shall not be construed more strongly against any party.

I. Each party to this Agreement hereby acknowledges and confirms that he, she or it has had an opportunity to retain independent legal counsel to independently advise that part of the legal consequences of the Agreement to the party. Each party to this Agreement further acknowledges and confirms that each such party received the strong recommendation by all other parties to the Agreement that each party should retain separate and independent legal counsel to advise each party of the legal consequences of the Agreement to that party.

J. All prior negotiations and/or oral agreements between the parties and/or two or more of the parties hereby are merged and extinguished into this Agreement.

K. Unless otherwise expressly provided in this Agreement, all rights, obligations and other terms and conditions specifically stated in this Agreement shall survive the execution of this Agreement.

L. If any one or more of the provisions contained in this Agreement for any reason are held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first set forth above but effective for all purposes as of April 1, 2002.

MBR AND ASSOCIATES, INC.		**DIGIRAD IMAGING SOLUTIONS, INC.**	
By:	*/s/ Becky M. Cacciatore*	By:	*/s/ Todd P. Clyde*
Name:	Becky M. Cacciatore	Name:	Todd P. Clyde
Title:	President	Title:	CFO

EXHIBIT 10.28

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

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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.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

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	EXPIRATION / EXERCISE PERIOD

11/14/00	Cardiovascular Consultants	$	1.50	10,000	11/14/05
11/14/00	Robert McKenzie	$	3.04	500	11/14/05
01/04/01	Stephen A McAdams	$	1.50	10,000	01/04/06
01/04/01	John C Whitham	$	1.50	10,000	01/04/06
01/26/01	Oklahoma Cardiovascular Associates	$	2.00	20,000	01/26/06
03/01/01	Stephen A McAdams	$	3.04	5,000	03/01/06
03/01/01	John C Whitham	$	3.04	5,000	03/01/06
03/28/01	Stephen A McAdams	$	3.04	10,000	03/28/06
03/28/01	John C Whitham	$	3.04	10,000	03/28/06
05/15/01	Stephen A McAdams	$	3.04	5,000	05/15/06
05/15/01	John C Whitham	$	3.04	5,000	05/15/06
05/15/01	Austin Heart	$	3.04	10,000	05/15/06
07/19/01	Stephen A McAdams	$	3.04	50,000	07/19/06
07/19/01	John C Whitham	$	3.04	50,000	07/19/06
12/14/01	Stephen A. McAdams	$	1.50	8,333	12/14/06
12/14/01	John C. Whitham	$	1.50	8,333	12/14/06
12/14/01	Oklahoma Cardiovascular Associates	$	3.00	5,000	12/14/06
03/05/02	Dr. Bob Jaros	$	3.00	6,000	03/05/07
03/05/02	Dr. Dan Stobbe	$	3.00	5,000	03/05/07
02/25/04	James C. Engelman	$	1.57	15,000	02/25/09
02/25/04	Accel Management Group	$	1.57	5,000	02/25/09
04/22/04	Robert Greco, M.D.	$	1.86	5,000	04/22/09

EXHIBIT 10.32

THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON THE EXERCISE HEREOF (COLLECTIVELY, THE "SECURITIES") 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 UNDER THE ACT 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

MWC - Date of Issuance – November 13, 2002

Void after November 13, 2007

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 or from time to time, before 5:00 PM, Pacific time on November 13, 2007 (the **"Expiration Date"**) up to 50,000 shares of Common Stock of the Company (the "**Warrant Shares**"), subject to adjustment as provided herein. The purchase price per share of such Common Stock upon exercise of this Warrant shall be $1.40 (the "**Exercise Price**"), subject to adjustment as provided herein.

1. Exercise Period. Subject to Section 2.2 herein, this Warrant may be exercised by the Holder at any time or from time to time after the Date of Issuance noted above but before 5:00 PM, Pacific time on the Expiration Date (the **"Exercise Period"**).

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 with respect to any or all of the Warrant Shares 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 aggregate Exercise Price for the Warrant Shares to be purchased hereunder. For any partial exercise hereof, the Holder shall designate in a notice of exercise or net issue election notice that number of shares of Common Stock that he wishes to purchase. On any such partial exercise, the Company at its

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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 Termination of the Warrant Upon a Corporate Transaction. Immediately following the occurrence of a Corporate Transaction, 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, a "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 Warrant Shares (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 Exercise Price (as adjusted through the Conversion Date)

The Conversion Right may only be exercised with respect to a whole number of Warrant Shares. 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 this Warrant.

3.2 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 specifying that the Holder thereby intends to exercise the Conversion Right and indicating the total number of shares under this Warrant that the Holder is exercising through 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 such time the person in whose name any certificate for shares of Common Stock shall be issuable upon such exercise shall be deemed to be the record holder of such Common Stock for all purposes. 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 of Directors of the Company (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 the Company's 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 the Company's 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, the fair market value of the Common Stock shall be determined in good faith by the Board.

4. When Exercise Effective. The exercise of this Warrant pursuant to 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 Section 2.1, or on such later date as is specified in the form of subscription, 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 pursuant to Section 2, 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 pursuant to Section 3.3.

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

Exercise 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 (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) 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 (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) into a larger number of shares of Common Stock (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) or (c) combine its outstanding shares of Common Stock (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) into a smaller number of shares of Common Stock (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant), then and in each such event the Exercise 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 Exercise 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 (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) 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 Exercise 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 one percent (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 (10) 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 (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) 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 shall make an adjustment in the number and class of shares available under this Warrant, the Exercise 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, upon exercise of this Warrant, the same aggregate Exercise Price and the same total number, class and kind of shares as the Holder would have owned had this 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 stockholder 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 Securities Act of 1933, as amended (the **“Act”**) and that this Warrant and the Warrant Shares have not been registered under the Act and the Company has no present intention of registering the Securities under the Act or any state securities law, and that this Warrant and the Warrant Shares 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 his own account and not with a view to or for sale in connection with any distribution of this Warrant or the Warrant

Shares and he 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

(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 and the Warrant Shares, (ii) has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of this Warrant and the Warrant Shares 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 and the Warrant Shares.

10. Market Stand-Off Agreement. The Holder hereby agrees that, 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, he 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 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:

(1) Such agreement shall not exceed 180 days for the first such registration statement of the Company which covers Common Stock (or other securities) to be sold on its behalf to the public in an underwritten offering;

(2) Such agreement shall not exceed ninety (90) days for any subsequent registration statement of the Company which covers Common Stock (or other securities) to be sold on its behalf to the public in an underwritten offering; and

(3) All directors and officers of the Company as well as all holders of one percent (1%) or more of the Company’s outstanding capital stock are similarly bound.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to securities held by the Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

11. Miscellaneous.

11.1 Transfer of Warrant. This Warrant shall not be transferable or assignable by the Holder without the express written consent of the Company.

11.2 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, by registered or certified mail, postage prepaid, or by nationally recognized overnight carrier 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. Such notice shall be deemed effectively given (i) if hand delivered, upon delivery, (ii) if sent by facsimile or other electronic medium, when confirmed, if sent during the normal business hours of the recipient (if not sent during the normal business hours of the recipient, then on the next business day), (iii) if sent by mail, five days after having been sent, or (iv) if sent by nationally recognized overnight courier, one day after deposit with such courier.

11.3 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.

11.4 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.

11.5 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.

11.6 Governing Law. This Warrant shall be governed by and construed and enforced in accordance with 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 undersigned have caused this Warrant to be executed by its officers thereunto duly authorized.

COMPANY: DIGIRAD CORPORATION

By: _____
David M. Sheehan
President and Chief Executive Officer

HOLDER: _____

[COUNTERPART SIGNATURE PAGE TO WARRANT TO PURCHASE COMMON STOCK 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 INVESTORS

WARRANTHOLDER

Stephen A. McAdams

John C. Whitham

EXHIBIT 10.33

THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON THE EXERCISE HEREOF (COLLECTIVELY, THE "SECURITIES") 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 UNDER THE ACT 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.

AMENDED AND RESTATED WARRANT TO PURCHASE COMMON STOCK

OF

DIGIRAD CORPORATION

MWC - ___

Date of Initial Issuance — November 13, 2002
Date of Amendment and Restatement — April 28, 2004

Void after November 13, 2007

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 or from time to time, before 5:00 PM, Pacific time on November 13, 2007 (the **"Expiration Date"**) up to 15,700 shares of Common Stock (**"Common Stock"**) of the Company (the "**Warrant Shares**"), subject to adjustment as provided herein. The purchase price per share of such Common Stock upon exercise of this Warrant shall be $1.40 (the "**Exercise Price**"), subject to adjustment as provided herein. This Warrant is issued to the Holder in connection with and subject to the terms and conditions of that certain Consulting Agreement dated on or about January 6, 2003, by and between the Company and McAdams and Whitham Consulting, LLC (the **"Consulting Agreement"**).

1. Exercise Period. Subject to Section 2.2 herein, this Warrant may be exercised by the Holder at any time or from time to time after the Date of Initial Issuance noted above but before 5:00 PM, Pacific time on the Expiration Date (the **"Exercise Period"**).

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 with respect to any or all of the Warrant Shares 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

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certified or official bank check payable to the order of the Company, of the aggregate Exercise Price for the Warrant Shares to be purchased hereunder. For any partial exercise hereof, the Holder shall designate in a notice of exercise or net issue election notice that number of shares of Common Stock that he 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 Termination of the Warrant Upon a Corporate Transaction. Immediately following the occurrence of a Corporate Transaction, 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, a "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 Warrant Shares (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 Exercise Price (as adjusted through the Conversion Date)

The Conversion Right may only be exercised with respect to a whole number of Warrant Shares. 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 this Warrant.

3.2 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 specifying that the Holder thereby intends to exercise the Conversion Right and indicating the total number of shares under this Warrant that the Holder is exercising through 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 such time the person in whose name any certificate for shares of Common Stock shall be issuable upon such exercise shall be deemed to be the record holder of such Common Stock for all purposes. 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 of Directors of the Company (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 the Company's 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 the Company's 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, the fair market value of the Common Stock shall be determined in good faith by the Board.

4. When Exercise Effective. The exercise of this Warrant pursuant to 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 Section 2.1, or on such later date as is specified in the form of subscription, 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 pursuant to Section 2, 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 pursuant to Section 3.3.

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 Exercise 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 (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) 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 (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) into a larger number of shares of Common Stock (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) or (c) combine its outstanding shares of Common Stock (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) into a smaller number of shares of Common Stock (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant), then and in each such event the Exercise 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 Exercise 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 (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) 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 Exercise 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 one percent (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 (10) 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 (or any shares of stock or other securities which may be issuable upon the exercise of this Warrant) 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 shall make an adjustment in the number and class of shares available under this Warrant, the Exercise 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, upon exercise of this Warrant, the same aggregate Exercise Price and the same total number, class and kind of shares as the Holder would have owned had this 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 stockholder 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 Securities Act of 1933, as amended (the **“Act”**) and that this Warrant and the Warrant Shares have not been registered under the Act and the Company has no present intention of registering the Securities under the Act or any state securities law, and that this Warrant and the Warrant Shares 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 his own account and not with a view to or for sale in connection with any distribution of this Warrant or the Warrant Shares and he 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

(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 and the Warrant Shares, (ii) has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of this Warrant and the Warrant Shares 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 and the Warrant Shares.

10. Market Stand-Off Agreement. The Holder hereby agrees that, 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, he 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 donees who agree to be similarly bound) any securities of the Company held by him at any time during such period except Common Stock included in such registration; provided, however, that:

(1) Such agreement shall not exceed 180 days for the first such registration statement of the Company which covers Common Stock (or other securities) to be sold on its behalf to the public in an underwritten offering;

(2) Such agreement shall not exceed ninety (90) days for any subsequent registration statement of the Company which covers Common Stock (or other securities) to be sold on its behalf to the public in an underwritten offering; and

(3) All directors and officers of the Company as well as all holders of one percent (1%) or more of the Company's outstanding capital stock are similarly bound.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to securities held by the Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

11. Miscellaneous.

11.1 Transfer of Warrant. This Warrant shall not be transferable or assignable by the Holder without the express written consent of the Company.

11.2 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, by registered or certified mail, postage prepaid, or by nationally recognized overnight carrier 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. Such notice shall be deemed effectively given (i) if hand delivered, upon delivery, (ii) if sent by facsimile or other electronic medium, when confirmed, if sent during the normal business hours of the recipient (if not sent during the normal business hours of the recipient, then on the next business day), (iii) if sent by mail, five days after having been sent, or (iv) if sent by nationally recognized overnight courier, one day after deposit with such courier.

11.3 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.

11.4 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.

11.5 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.

11.6 Governing Law. This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of California as applied to agreements among California residents entered into and to be performed entirely within California.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have caused this Warrant to be executed by its officers thereunto duly authorized.

COMPANY: DIGIRAD CORPORATION

By: _____
David M. Sheehan
President and Chief Executive Officer

HOLDER: _____ 60;_____

[COUNTERPART SIGNATURE PAGE TO AMENDED AND RESTATED
WARRANT TO PURCHASE COMMON STOCK 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 INVESTORS

WARRANTHOLDER

Stephen A. McAdams

John C. Whitham

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the reference to our firm under the captions "Selected Consolidated Financial Data" and "Experts" and to the use of out report dated March 12, 2004, except for Note 9 "Changes in Capitalization" as to which the date is April 30, 2004, in Amendment No. 4 to the Registration Statement (Form S-1 No. 333-113760) and related Prospectus of Digirad Corporation for the registration of shares of its common stock.

Our audits also included the financial statement schedule of Digirad Corporation listed in Item 16(b) of this registration statement. The schedule is the responsibility of the Company's management. Our responsibility 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

San Diego, California
June 1, 2004

QuickLinks