FORM 8-K

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ISOLYSER CO INC /GA/

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SIC: **3842** Orthopedic, prosthetic & surgical appliances & supplies

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

Current Report Pursuant
to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): July 12, 1999

ISOLYSER COMPANY, INC.
(Exact Name of Registrant as Specified in Its Charter)

Georgia
(State or Other Jurisdiction of Incorporation)

0-24866	58-1746149
(Commission File Number)	(I.R.S. Employer Identification No.)

4320 International Boulevard, Norcross, Georgia 30093
(Address of Principal Executive Offices (Zip Code)

(770) 806-9898
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

864736v1

Item 2. Acquisition or Disposition of Assets

On July 12, 1999, Isolyser Company, Inc. ("Isolyser") and its wholly owned subsidiary, MedSurg Industries, Inc. ("MedSurg"), sold to Allegiance Healthcare Corporation ("Allegiance") substantially all of their assets used primarily in the business (the "Business") of assembling, packaging, marketing and selling procedure kits and trays, and Isolyser granted to Allegiance a worldwide exclusive license (the "License") to Isolyser's proprietary technologies to make, use and sell products made from material (the "Material") which can be dissolved and disposed of through sanitary sewer systems for healthcare applications. Allegiance is not an "affiliate" of Isolyser within the meanings of the Securities Act of 1933, as amended. The purchase price payable

for such assets and license consisted of approximately $31.3 million in cash, the assumption by Allegiance of certain liabilities of Isolyser and MedSurg relating to the Business, and Allegiance's agreement that Isolyser would be the sole supplier during the term of the License of Material to Allegiance which would at least include a certain minimum quantity of fabric to be purchased by Allegiance from Isolyser. The purchase price was negotiated at arms' length.

Item 7. Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired:

Not applicable.

(b) Pro Forma Financial Information:

The required unaudited pro forma financial information will be filed not more than sixty days after the date this current report must be filed.

(c) Exhibits:

2.1*+	Asset Purchase Agreement dated as of May 25, 1999, among Allegiance, Isolyser and MedSurg
2.2*+	First Amendment to Asset Purchase Agreement dated as of July 12, 1999, among Allegiance, Isolyser and MedSurg
2.3 (1)*	Supply and License Agreement dated as of July 12, 1999, between Isolyser and Allegiance
2.4 (1)*	Contract Manufacturing Agreement dated as of July 12, 1999, among Allegiance, Isolyser and MedSurg
2.5*	Escrow Agreement dated as of July 12, 1999 among Allegiance, The First National Bank of Chicago and Isolyser
99.1*	Press Release captioned "Isolyser Announces Completion of Its Sale of MedSurg Industries and License of OREX Technology to Allegiance" dated July 13, 1999

---

* Filed herewith.

\+ In accordance with Item 601(b)(2) of Regulation S-K, the schedules have been omitted and a list briefly describing the schedules is contained in the table of contents to the Exhibit. The Registrant will furnish supplementally a copy of any omitted schedule to the Commission upon request.

(1) Isolyser has applied for confidential treatent of portions of this

Agreement. Accordingly, portions thereof have been omitted and filed separately with the Securities and Exchange Commission.

864736v1

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be duly signed on its behalf by the undersigned hereunto duly authorized.

ISOLYSER COMPANY, INC.

By: /s/ PETER A. SCHMITT

Peter A. Schmitt, Executive Vice President and Chief Financial Officer

Dated: July 27, 1999

864736v1

EXHIBIT INDEX

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(1) Isolyser has applied for confidential treatent of portions of this Agreement. Accordingly, portions thereof have been omitted and filed separately with the Securities and Exchange Commission.

Exhibit 2.1

861986v1 Execution Copy

ASSET PURCHASE AGREEMENT

Dated as of May 25, 1999

Among

ALLEGIANCE HEALTHCARE CORPORATION,

ISOLYSER COMPANY, INC.

and

MEDSURG INDUSTRIES, INC.

TABLE OF CONTENTS

Page

ARTICLE I DEFINITIONS....1
1.1. Definitions....1

ARTICLE II PURCHASE AND SALE....8
2.1. Purchased Assets....8
2.2. Excluded Assets....10
2.3. Assumed Liabilities....11
2.4. Excluded Liabilities....11
2.5. Non-assignable Contracts....13

ARTICLE III PURCHASE PRICE....14
3.1. Purchase Price....14
3.2. Adjustment to Preliminary Purchase Price....14
3.3. Determination of Inventory Adjustment Amount....14
3.4. Determination of Net Asset Adjustment....16
3.5. Deferred Closing Adjustment to Purchase Price....16
3.6. Allocation of Purchase Price....17

ARTICLE IV CLOSING....18
4.1. Closing Date....18
4.2. Payment on the Closing Date....18
4.3. Buyer's Additional Deliveries....18
4.4. Parent's Deliveries....19
4.5. Deferred Closing....20
4.6. Payments in Connection with Certain Personal Property Leases....21

ARTICLE V REPRESENTATIONS AND WARRANTIES OF PARENT AND MEDSURG....22
5.1. Organization of Parent....22
5.2. Subsidiaries and Investments....22
5.3. Authority of Parent....23
5.4. Financial Statements....23
5.5. Operations Since Balance Sheet Date....24
5.6. No Undisclosed Liabilities....25
5.7. Taxes....25
5.8. Availability of Assets....26
5.9. Governmental Permits....26
5.10. Real Property. 27
5.11. Real Property Leases....27
5.12. Condemnation....27
5.13. Personal Property....28
5.14. Personal Property Leases....28
5.15. Intellectual Property; Software....28
5.16. Accounts Receivable; Inventories....29
5.17. Title to Property....30
5.18. Employees and Related Agreements; ERISA....30
5.19. Employee Relations....30

5.20. Contracts....31
5.21. Status of Contracts....32
5.22. No Violation, Litigation or Regulatory Action....32
5.23. Environmental Matters....33
5.24. Insurance....34
5.25. Customers and Suppliers....34
5.26. [INTENTIONALLY BLANK]....35
5.27. Warranties and Product Liabilities....35
5.28. No Finder....35
5.29. No Third Party Options....35
5.30. Disclosure....36

ARTICLE VI REPRESENTATIONS AND WARRANTIES OF BUYER....36
6.1. Organization of Buyer....36
6.2. Authority of Buyer....36
6.3. No Finder....37

ARTICLE VII ACTION PRIOR TO THE CLOSING DATE....37
7.1. Investigation of the Business by Buyer....37
7.2. Preserve Accuracy of Representations and Warranties....37
7.3. Consents of Third Parties; Governmental Approvals....38
7.4. Operations Prior to the Closing Date....38
7.5. Notification by Parent of Certain Matters....40
7.6. Antitrust Law Compliance....40
7.7. Insurance....40
7.8. [INTENTIONALLY BLANK]....40

ARTICLE VIII ADDITIONAL AGREEMENTS....40
8.1. Covenant Not to Compete or Solicit Business....40
8.2. Use of Names....41
8.3. Taxes....42
8.4. Discharge of Business' Liabilities....43
8.5. Employees and Employee Benefit Plans....43
8.6. [INTENTIONALLY BLANK]....43
8.7. Ancillary Agreements....44
8.8. Handling of Returned Products....44

ARTICLE IX CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER....44
9.1. No Misrepresentation or Breach of Covenants and Warranties....44
9.2. No Changes or Destruction of Property....44
9.3. No Restraint or Litigation....45
9.4. Necessary Governmental Approvals....45
9.5. Necessary Consents....45
9.6. Maintenance of Accounts....45
9.7. Key Employees....45
9.8. [INTENTIONALLY BLANK]....45
9.9. Instrument of Assignment and Ancillary Agreements....45

ARTICLE X CONDITIONS PRECEDENT TO OBLIGATIONS OF PARENT AND MEDSURG.46
10.1. No Misrepresentation or Breach of Covenants and Warranties....46
10.2. No Restraint or Litigation....46

10.3. Necessary Governmental Approvals....46
10.4. Purchase Price, Instrument of Assumption and Ancillary Agreements..46

ARTICLE XI INDEMNIFICATION....46
11.1. Indemnification by Parent....46
11.2. Indemnification by Buyer....47
11.3. Notice of Claims....48
11.4. Third Person Claims....48

ARTICLE XII TERMINATION....49
12.1. Termination....49
12.2. Notice of Termination....50
12.3. Effect of Termination....50

ARTICLE XIII GENERAL PROVISIONS....50
13.1. Survival of Obligations....50
13.2. Confidential Nature of Information....50
13.3. No Public Announcement....51
13.4. Notices....51
13.5. Successors and Assigns....52
13.6. Access to Records after Closing....53
13.7. Entire Agreement; Amendments....53
13.8. Interpretation....53
13.9. Waivers....54
13.10. Expenses....54
13.11. Partial Invalidity....54
13.12. Execution in Counterparts....54
13.13. Further Assurances....54
13.14. Governing Law....55
13.15. Submission to Jurisdiction....55

Schedules

1.1 Exceptions to Agreed Accounting Principles
2.1(L) Purchased Assets
2.2(I) Inventory on Consignment
2.4(B) Excluded Liabilities
5.1 Organization of Parent
5.2(A) Organization of MedSurg
5.3 Authority of Parent
5.4 Financial Statements
5.5(A) Operations Since Balance Sheet Date
5.5(B) Operations Since Balance Sheet Date
5.6 No Undisclosed Liabilities
5.7 Taxes
5.8 Availability of Assets
5.9 Governmental Permits
5.10 Real Property

5.11 Real Property Leases
5.13 Personal Property
5.14 Personal Property Leases
5.15 Intellectual Property; Software
5.17 Title to Property
5.19 Employee Relations
5.20 Contracts
5.21 Status of Contracts
5.22 No Violation, Litigation or Regulatory Action
5.23 Environmental Matters
5.24 Insurance
5.25 Customers and Suppliers
5.27 Warranties and Product Liabilities
9.5 Necessary Consents
9.7 Key Employees

EXHIBITS

EXHIBIT A-1-INSTRUMENT OF ASSIGNMENT DUE AT CLOSING
EXHIBIT A-2-INSTRUMENT OF ASSIGNMENT DUE AT THE DEFERRED CLOSING
EXHIBIT B-1-INSTRUMENT OF ASSUMPTION DUE AT CLOSING
EXHIBIT B-2-INSTRUMENT OF ASSUMPTION DUE AT THE DEFERRED CLOSING
EXHIBIT C - SUPPLY & LICENSE AGREEMENT
EXHIBIT D - CONTRACT MANUFACTURING AGREEMENT
EXHIBIT E - ESCROW AGREEMENT
EXHIBIT F - OPINION OF GENERAL COUNSEL OF BUYER AND OPINION OF COUNSEL TO BUYER
EXHIBIT G - OPINION OF COUNSEL TO PARENT
EXHIBIT H - PAYMENT IN CONNECTION WITH CERTAIN PERSONAL PROPERTY LEASES

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT, dated as of May 25, 1999 (this "Agreement"), among Allegiance Healthcare Corporation, a Delaware corporation ("Buyer"), Isolyser Company, Inc., a Georgia corporation ("Parent") and MedSurg Industries, Inc, a Georgia corporation and a wholly-owned subsidiary of Parent ("MedSurg").

WHEREAS, Parent is engaged through one or more of its subsidiaries in the business of assembling, packaging, marketing and selling procedure kits and trays (the "Business"); and

WHEREAS, Parent desires to sell or cause to be sold to Buyer, and Buyer desires to purchase the Business and certain of the assets of the Business, together with certain liabilities related thereto, all on the terms

and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, it is hereby agreed among Parent, MedSurg and Buyer as follows:

ARTICLE I

DEFINITIONS

1.1. Definitions. In this Agreement, the following terms have the meanings specified or referred to in this Section 1.1 and shall be equally applicable to both the singular and plural forms. Any agreement referred to below shall mean such agreement as amended, supplemented and modified from time to time to the extent permitted by the applicable provisions thereof and by this Agreement.

"Action" means any legal action, suit, arbitration, inquiry, proceeding or investigation by or before any court, any governmental or other regulatory or administrative agency or commission or any arbitration tribunal.

"Adjusted Purchase Price" has the meaning specified in Section 3.2(b).

"Adjustment Report" has the meaning specified in Section 3.4(a).

"Affiliate" means, with respect to any Person, any other Person which directly or indirectly controls, is controlled by or is under common control with such Person.

"Agreed Accounting Principles" means generally accepted accounting principles consistently applied, provided that, notwithstanding the foregoing, Agreed Accounting Principles shall include the accounting policies and be subject to the exceptions described in Schedule 1.1; and provided further that, for purposes of the Agreed Accounting Principles, no known adjustments for items or matters, regardless of the amount thereof, shall be deemed to be immaterial.

"Allocation Schedule" has the meaning specified in Section 3.6.

"Ancillary Agreements" has the meaning specified in Section 8.7.

"Assumed Liabilities" has the meaning specified in Section 2.3.

"Balance Sheet" means the unaudited balance sheet of the Business as of April 30, 1999 included in Schedule 5.4.

"Balance Sheet Date" means April 30, 1999.

"Business" has the meaning specified in the first recital to this Agreement.

"Buyer" has the meaning specified in the first paragraph of this Agreement.

"Buyer Ancillary Agreements" means all agreements, instruments and documents being or to be executed and delivered by Buyer under this Agreement or in connection herewith.

"Buyer Group Member" means Buyer and its Affiliates and their respective successors and assigns.

"CA" has the meaning specified in Section 4.6(a).

"CA License Agreement" has the meaning specified in Section 4.6(a).

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Sections 9601 et seq. and any amendments thereto, and any regulations promulgated thereunder, as in effect on or prior to the Closing Date.

"Claim Notice" has the meaning specified in Section 11.3(a).

"Closing" means the closing of the transfer of the Purchased Assets (except for the Unfinished Goods) from Parent to Buyer.

"Closing Date" has the meaning specified in Section 4.1.

"COBRA" has the meaning specified in Section 8.5(b).

"Code" means the Internal Revenue Code of 1986, as amended.

"Collection Report" has the meaning specified in Section 8.6(b).

"Confidentiality Agreement" means the Confidentiality Agreement dated March 19, 1999 between Buyer and Parent.

"Contracts" means all contracts, agreements, commitments, understandings and arrangements, whether written or oral.

"Contract Manufacturing Agreement" means the Contract Manufacturing Agreement in the form of Exhibit D.

"Copyrights" means United States and foreign copyrights, whether registered or unregistered, and pending applications to register the same.

"Court Order" means any judgment, order, award or decree of any foreign, federal, state, local or other court or tribunal and any award in any arbitration proceeding.

"Deferred Closing" has the meaning in Section 4.5.

"Deferred Closing Adjustment Report" has the meaning specified in Section 3.5(a).

"Deferred Closing Purchase Price Adjustment Amount" has the meaning specified in Section 3.5(c).

"Deferred Closing Trade Payables" has the meaning specified in Section 3.5(a).

"Deferred Closing Unfinished Goods Inventory" has the meaning specified in Section 3.5(a).

"Designated Employees" has the meaning specified in Section 8.1(b).

"Encumbrance" means any lien (statutory or other) claim, charge, security interest, mortgage, deed of trust, pledge, hypothecation, assignment, conditional sale or other title retention agreement, preference, priority or other security agreement or preferential arrangement of any kind or nature, and any easement, encroachment, covenant, restriction, right of way, defect in title or other encumbrance of any kind.

"Employees" has the meaning specified in Section 8.5(a).

"Environmental Encumbrance" means an Encumbrance in favor of any Governmental Authority for (i) any liability under any Environmental Law, or (ii) damages arising from, or costs incurred by such Governmental Authority in response to, a Release or threatened Release of Hazardous Materials into the environment.

"Environmental Law" means all Requirements of Laws derived from or relating to all federal, state and local laws or regulations relating to or addressing the environment, health or safety, including but not limited to CERCLA, OSHA and RCRA and any state equivalent thereof as in effect on or prior to the Closing Date.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Escrow Account" has the meaning specified in Section 4.2(b).

"Escrow Agent" has the meaning specified in Section 4.2(b).

"Escrow Agreement" has the meaning specified in Section 4.2(b).

"Escrowed Amount" has the meaning specified in Section 4.2(b).

"Excluded Assets" has the meaning specified in Section 2.2.

"Excluded Liabilities" has the meaning specified in Section 2.4.

"Expenses" means any and all expenses incurred in connection with investigating, defending or asserting any claim, action, suit or proceeding incident to any matter indemnified against hereunder (including, without limitation, court filing fees, court costs, arbitration fees or costs, witness fees, and reasonable fees and disbursements of legal counsel, investigators, expert witnesses, consultants, accountants and other professionals).

"Facilities" means any plant, building, facility, structure, underground storage tank, equipment or unit, or other asset owned, leased or operated by either Parent or MedSurg and used primarily in the Business.

"Governmental Authority" means any foreign, federal, state, local or other government, governmental, statutory or administrative authority, regulatory body or commission or any court, tribunal, or judicial or arbitral body.

"Governmental Permits" has the meaning specified in Section 5.9.

"Hazardous Materials" means any waste, pollutant, hazardous or toxic substance or waste, petroleum-based substance or waste, special waste or any constituent of any such substance or waste, as the same are defined in, or for which standards of care are imposed pursuant to, Environmental Laws.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"IBM" has the meaning specified in Section 4.6(b).

"IBM Lease" has the meaning specified in Section 4.6(b).

"Indemnified Party" has the meaning specified in Section 11.3(a).

"Indemnitor" has the meaning specified in Section 11.3(a).

"Independent Accountant" has the meaning specified in Section 3.3(f).

"Instrument of Assignment" means the Instruments of Assignment in the forms of Exhibit A-1 or Exhibit A-2, as the case may be.

"Instrument of Assumption" means the Instruments of Assumption in the forms of Exhibit B-1 or Exhibit B-2, as the case may be.

"Intellectual Property" means Copyrights, Patent Rights, Trademarks and Trade Secrets and all agreements, Contracts, licenses, sublicenses,

assignments, and indemnities which relate or pertain to any of the foregoing.

"Inventory" has the meaning specified in Section 2.1(b).

"Inventory Adjustment Amount" has the meaning specified in Section 3.2(b).

"Inventory Book Value" has the meaning specified in Section 3.3(a).

"IRS" means the Internal Revenue Service.

"knowledge" means, as to a particular matter, actual knowledge after due inquiry of Parent and its Affiliates.

"Leased Real Property" has the meaning specified in Section 5.11.

"Losses" means any and all losses, costs, obligations, liabilities, settlement payments, awards, judgments, fines, penalties, damages, fees, expenses, deficiencies claims or other charges.

"Medical Product Regulatory Authority" means any Governmental Authority that is concerned with the safety, efficacy, reliability, manufacture, sale or marketing of medical products.

"MedSurg" has the meaning specified in the first paragraph of this Agreement.

"Net Asset Adjustment" has the meaning specified in Section 3.2(b).

"Net Assets" has the meaning specified in Section 3.2(b).

"Net Deferred Closing Inventory" has the meaning specified in Section 3.5(c).

"Net Inventory Base" means the amount of the Unfinished Goods set forth on the Balance Sheet minus the amount of Trade Payables set forth on the Balance Sheet.

"OSHA" means the Occupational Safety and Health Act, 29 U.S.C. Sections 651 et seq., any amendment thereto, any successor statute, and any regulations promulgated thereunder.

"Parent" has the meaning specified in the first paragraph of this Agreement.

"Parent Agreements" has the meaning specified in Section 5.21.

"Parent Ancillary Agreements" means all agreements, instruments and

documents being or to be executed and delivered by Parent or any of its Affiliates under this Agreement or in connection herewith.

"Parent Group Member" means Parent and its Affiliates and their respective successors and assigns.

"Patent Rights" means United States and foreign patents, patent applications, provisional applications, continuations, continuations-in-part, divisions, reissues, patent disclosures, inventions (whether or not patentable or reduced to practice) or improvements thereto.

"Permitted Encumbrances" means (a) liens for taxes and other governmental charges and assessments reflected on the Valuation Date Balance Sheet and arising in the ordinary course of the Business which are not yet due and payable, (b) liens of landlords and liens of carriers, warehousemen, mechanics and materialmen and other like liens reflected on the Valuation Date Balance Sheet and arising in the ordinary course of the Business for sums not yet due and payable, (c) other non-monetary liens or imperfections on property which do not interfere with, and are not violated by, the consummation of the transactions contemplated by this Agreement, and do not impair the marketability of, or detract from the value of or impair the existing use of the property affected by such lien or imperfection and (d) leases to which any leased asset is subject.

"Person" means any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization or Governmental Authority.

"Physical Inventory Value" has the meaning specified in Section 3.3(c).

"Preliminary Purchase Price" has the meaning specified in Section 3.1.

"Purchase Price" has the meaning specified in Section 3.1.

"Purchase Price Adjustment Amount" has the meaning specified in Section 3.2(a).

"Purchased Assets" has the meaning specified in Section 2.1.

"RCRA" means the Resource Conservation and Recovery Act, 42 U.S.C. Sections 6901 et seq., and any amendments thereto, and any regulations promulgated thereunder, as in effect on or prior to the Closing Date.

"Release" means release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of Hazardous Materials into the indoor or outdoor environment or into or out of any of the Facilities, including the movement of Hazardous Materials through or in the air,

soil, surface water, groundwater or Facilities.

"Remedial Action" means actions required to (a) clean up, remove, treat or in any other way address Hazardous Materials in the indoor or outdoor environment; (b) prevent the Release or threatened Release or minimize the further Release of Hazardous Materials; or (c) investigate and determine if a remedial response is needed and to design such a response and post-remedial investigation, monitoring, operation and maintenance and care.

"Requirements of Laws" means any foreign, federal, state and local laws, statutes, regulations, rules, codes, ordinances or requirements enacted, adopted, issued or promulgated by any Governmental Authority (including, without limitation, those pertaining to electrical, building, zoning, subdivision, land use, environmental and occupational safety and health requirements) or common law.

"Software" means computer software programs and software systems, including, without limitation, all databases, compilations, tool sets, compilers, higher level or "proprietary" languages, related documentation, technical manuals and materials, whether in source code, object code or human readable form and any licenses or rights with respect to the foregoing.

"Special Audit" has the meaning specified in Section 3.3(c).

"Supply & License Agreement" means the Supply & License Agreement in the form of Exhibit C.

"Tax" means any federal, state, local or foreign net income, alternative or add-on minimum, ad valorem, value-added, gross income, gross receipts, windfall profits, severance, production, environmental, property, sales, use, transfer, stamp, gains, license, excise, employment, payroll, withholding or minimum tax, or any other tax, custom, duty, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or any penalty, addition to tax or additional amount imposed by any Governmental Authority.

"Tax Return" means any return, report or similar statement required to be filed with respect to any Taxes (including any attached schedules), including, without limitation, any information return, claim for refund, amended return and declaration of estimated Tax.

"Trade Payables" means accounts payable to trade creditors.

"Trade Secrets" means confidential ideas, trade secrets, know-how, concepts, methods, processes, formulae, reports, data, customer lists, mailing lists, business plans or other proprietary information.

"Trademarks" means United States, state and foreign trademarks,

service marks, logos, trade dress, trade names and Internet domain names (including all assumed or fictitious names under which the Business is conducting its business or has within the previous five years conducted its business), whether registered or unregistered and pending applications to register the foregoing.

"Unfinished Goods" means all Inventory excluding finished goods inventory.

"Valuation Date Balance Sheet" has the meaning specified in Section 3.4(a).

"Year 2000 Compliant" means, with respect to a microprocessor, computer, computer program or other items of software (a) the functions, calculations, and other computing processes of the microprocessor, computer, program or software (collectively, the AProcesses@) perform in a consistent and correct manner without interruption regardless of the date on which the Processes are actually performed and regardless of the date input to the applicable computer system, whether before, on, or after January 1, 2000; (b) the microprocessor, computer, program or software accepts, calculates, compares, sorts, extracts, sequences, and otherwise processes date inputs and date values, and returns and displays date values, in a consistent and correct manner regardless of the dates used whether before, on, or after January 1, 2000; (c) the microprocessor, computer, program or software accepts and responds to year input, if any, in a manner that resolves any ambiguities as to century in a defined, predetermined, and appropriate manner; (d) the microprocessor, computer, program or software stores and displays date information in ways that are unambiguous as to the determination of the century; and (e) leap years will be determined by the following standard (A) if dividing the year by 4 yields an integer, it is a leap year, except for years ending in 00, but (B) a year ending in 00 is a leap year if dividing it by 400 yields an integer.

"WARN Act" has the meaning specified in Section 5.19.

"Warn Notice" has the meaning specified in Section 8.5(c).

ARTICLE II

PURCHASE AND SALE

2.1. Purchased Assets. Upon the terms and subject to the conditions of this Agreement and subject to Sections 2.2 and 4.5, on the Closing Date, Parent shall sell, transfer, assign, convey and deliver, or cause to be sold, transferred, assigned, conveyed and delivered, to Buyer, and Buyer shall purchase, free and clear of all Encumbrances (except for Permitted Encumbrances), the Business and all of the assets of Parent and its Affiliates

including MedSurg, of every kind and description, wherever located, personal or mixed, tangible or intangible, used primarily, or held primarily for use in to the Business as the same shall exist on the Closing Date (herein collectively called the "Purchased Assets"), including, without limitation, all right, title and interest of MedSurg in, to and under:

(a) all notes and accounts receivable;

(b) except for the consignment Inventory set forth in Schedule 2.2(I), all raw materials, supplies, work-in-process, finished goods, packaging materials, samples and other materials included in the inventory (the "Inventory");

(c) the machinery, equipment, appliances, vehicles, tools, spare parts, accessories, furniture and other personal property listed or referred to in Schedule 5.13 (including all such items which are currently on order for use primarily in the Business and all such items which are stored or used off-site but which have been used primarily in the ordinary course of the Business within the 12 months preceding the date hereof);

(d) the personal property leases listed in Schedule 5.14;

(e) the lease agreements and leasehold improvements listed or described in Schedule 5.11;

(f) the Governmental Permits listed in Schedule 5.9;

(g) the Copyrights, Patent Rights and Trademarks (and all goodwill associated therewith), including the product labels, Contracts, licenses, sublicenses, assignments and indemnities, listed in Schedule 5.15;

(h) the Parent Agreements included as part of the Purchased Assets;

(i) all Trade Secrets and other proprietary or confidential information used primarily in or relating primarily to the Business;

(j) [INTENTIONALLY BLANK];

(k) all books, records, files, invoices, Inventory records, product specifications, advertising materials, customer lists, cost and pricing information, supplier lists, business plans, catalogs, customer literature, quality control records and manuals, research and development files, records and laboratory books and credit records of customers (including all data and other information stored on discs, tapes or other media) primarily relating to the assets, properties,

business and operations of the Business, excluding, however, records, files and other information kept for financial reporting or income tax purposes;

(l) all telephone, telex and telephone facsimile numbers, other directory listings and Internet domain names utilized primarily in connection with the Business, including the toll free customer service numbers listed in Schedule 2.1(L);

(m) all benefits and rights arising from prepaid expenses attributable primarily to the Business other than those relating to any of the Excluded Assets, including, without limitation, (i) ad valorem and other property Taxes, (ii) all refundable security deposits paid by MedSurg with respect to the Contracts listed in Schedule 5.20, (iii) pre-paid expenses to outside vendors for special orders that have not been reimbursed to MedSurg in the ordinary course of the Business, and (iv) payments or deposits related to licenses and permits transferred to Buyer; and

(n) all benefits and rights, including rights of recovery, under insurance notices relating primarily to the Business or the Purchased Assets with respect to occurrences on or prior to the Closing Date.

2.2. Excluded Assets. Notwithstanding the provisions of Section 2.1, the Purchased Assets shall not include the following (herein referred to as the "Excluded Assets"):

(a) all cash, bank deposits and cash equivalents, except for deposits and refunds related to the Purchased Assets;

(b) except as provided in Section 8.2, the name "Isolyser" or any related or similar trade names, trademarks, service marks or logos to the extent the same incorporate the name "Isolyser" or any variation thereof;

(c) rights, claims or causes of action against third parties relating to the assets, properties, business or operations of the Business which may arise in connection with the discharge by Parent of the Excluded Liabilities;

(d) Intellectual Property related primarily to Parent's Orex and Enviroguard products;

(e) all Contracts of insurance;

(f) all corporate minute books and stock transfer books and the corporate seal of MedSurg;

(g) all Contracts with employees of Parent or MedSurg, other than those Contracts entered into by employees in a capacity other than as employees of Parent or MedSurg;

(h) all refunds of any Tax for which Parent or MedSurg is liable pursuant to Section 8.3;

(i) Inventory on consignment from unrelated third parties of Parent, MedSurg or any of their Affiliates set forth in Schedule 2.2(I);

(j) all assets under or relating to any employee benefit plan, program or arrangement of Parent, MedSurg or any of their Affiliates;

(k) Software listed on Schedule 5.15;

(l) the name "MedSurg Industries, Inc.";

(m) the Contracts listed in items 1 and 2 of Schedule 5.14; in items 1 and 2 of Schedule 5.15; and in items 3, 4, 6, 7, 8, 9, 11, 12, 14, 15, and 16 of Schedule 5.20; and

(n) the items described in Schedule 5.8.

2.3. Assumed Liabilities. Upon the terms and subject to the conditions of this Agreement, on the Closing Date, Buyer shall, subject to Sections 2.4 and 4.5, deliver to MedSurg the Instrument of Assumption pursuant to which Buyer shall assume and agree to discharge all of the following obligations and liabilities of Parent or its Affiliates, including MedSurg in accordance with their respective terms and subject to the respective conditions thereof:

(a) all liabilities of the Business other than Trade Payables reflected in the Valuation Date Balance Sheet as a dollar amount but only to the extent of the dollar amount shown thereon;

(b) all Trade Payables included in the Deferred Closing Trade Payables Amount as a dollar amount but only to the extent of the dollar amount so included;

(c) all liabilities and obligations to be paid or performed after the Closing Date under the Parent Agreements or any other Contracts related primarily to the Business which are not required by the terms of Section 5.20 to be listed or described in Schedule 5.20, in each case included as part of the Purchased Assets; and

(d) all liabilities and obligations arising out of or

resulting from the conduct of the Business from the Balance Sheet Date to the Closing Date but only if such liabilities and obligations shall have been incurred by MedSurg in the ordinary course of the Business consistent with past practice and in compliance with this Agreement; provided, however, that nothing in this Section 2.3 shall be deemed to modify or limit any representation or warranty contained in Article V or any covenant or obligation of Parent contained in this Agreement or the obligation to indemnify Buyer as provided in Article XI.

All of the foregoing liabilities and obligations to be assumed by Buyer hereunder (excluding any Excluded Liabilities) are referred to herein as the "Assumed Liabilities".

2.4. Excluded Liabilities. Notwithstanding anything to the contrary in Section 2.3 and subject to Section 4.5, Buyer shall not assume or be obligated to pay, perform or otherwise discharge any liability or obligation of Parent or any of its Affiliates including MedSurg, direct or indirect, known or unknown, absolute or contingent, not expressly assumed by Buyer pursuant to the Instrument of Assumption (all such liabilities and obligations not being assumed being herein called the "Excluded Liabilities") and none of the following shall be Assumed Liabilities for purposes of this Agreement:

(a) any liabilities in respect of Taxes for which Parent is liable pursuant to Section 8.3;

(b) any intercompany payables and other liabilities or obligations to Parent or any of its Affiliates, except as set forth in Schedule 2.4(B);

(c) any costs and expenses incurred by Parent or MedSurg incident to its negotiation and preparation of this Agreement and its performance and compliance with the agreements and conditions contained herein;

(d) any liabilities or obligations in respect of any Excluded Assets except Excluded Assets described in Section 2.2(i);

(e) any liabilities in respect of the claims or proceedings described in Schedule 5.22;

(f) liabilities of any kind which were not reflected on the Valuation Date Balance Sheet as a dollar amount or which are in excess of the dollar amount shown thereon (other than those described in Section 2.3(c) or (d);

(g) any liabilities and obligations related to, associated with or arising out of the occupancy, operation, use or control of any of the Facilities or the operation of the Business on or prior to the

Closing Date, in each case incurred or imposed by any Environmental Law (including, without limitation, any Release of any Hazardous Materials on, at or from (i) the Facilities, including, without limitation, all facilities, improvements, structures and equipment thereon, surface water thereon or adjacent thereto and soil or groundwater thereunder, or any conditions whatsoever on, under or in the vicinity of such real property) or (ii) any real property or facility owned by a third Person to which Hazardous Materials generated by the Business were sent prior to the Closing Date;

(h) any product liability or claims for injury to person or property, regardless of when made or asserted, relating to products manufactured, distributed or sold by the Business or services performed by the Business on or prior to the Closing Date or which is imposed, or asserted to be imposed, by operation of law, in connection with any service performed or product manufactured by or on behalf of Parent or any of its Affiliates, including MedSurg, prior to the Closing Date;

(i) any recalls on or after the Closing Date mandated by any Governmental Authority of the products manufactured, distributed or sold by the Business on or prior to the Closing Date;

(j) any liability, claim or obligation arising out of, or otherwise relating to, any Actions (i) currently pending, as of the Closing Date, against Parent or any of its Affiliates including MedSurg, or (ii) instituted after Closing to the extent based upon, or arising out of, any fact, condition, event or circumstance which occurs or is otherwise existing prior to the Closing Date;

(k) any obligations related to products manufactured, distributed or sold by the Business on or prior to the Closing Date which are returned by a customer after the Closing Date;

(l) any liability or obligation to provide warranty or service on, or to repair or replace, any products manufactured, distributed or sold by the Business on or prior to the Closing Date;

(m) any liability or obligation arising with respect to any claim seeking recovery for consequential damage, lost revenue or income or punitive damages, regardless of the nature thereof, to the extent arising out of service performed or products related to the Business manufactured by or on behalf of Parent or any of its Affiliates, including MedSurg, prior to the Closing Date or any other fact, condition, event or circumstance which occurs or is otherwise existing prior to the Closing Date;

(n) any liability or obligation within the scope of Section 8.5;

(o) any obligations of Parent or any of its Affiliates, including MedSurg, to indemnify any Person in connection with the operation of the Business by reason of the fact that such Person was an officer, employee or agent of Parent or any of its Affiliates or was serving at the request of Parent or any of its Affiliates as a partner, trustee, director, officer, employee or agent of another entity, whether arising under Contract, common law or otherwise; and

(p) any liability or obligation to Employees for vacation pay or severance.

2.5. Nonassignable Contracts. To the extent that assignment hereunder to Buyer of any Contract, license, lease, or permit is not permitted or is not permitted without the consent of any third Person, this Agreement shall not be deemed to constitute an undertaking to assign the same if such consent is not given or if such an undertaking otherwise would constitute a breach of or cause a loss of benefits thereunder. Parent shall use its commercially reasonable efforts to obtain any and all such third Person consents effective as of the Closing. Parent shall also use its commercially reasonable efforts to cooperate with and assist Buyer in preparing and submitting any information required in connection with registrations and licenses that relate to periods of time commencing prior to and ending after the Closing Date; provided that Parent shall have no obligation to offer or pay any consideration in order to obtain any such consents or approvals provided further, that, in the case of any arrangements relating to the sale of products of the Business to any Governmental Authority. Parent and MedSurg will cooperate with Buyer to facilitate the approval and/or the novation of such arrangements in favor of Buyer, and until the earlier to occur of such approval or novation, Parent and MedSurg will assist Buyer with respect to the sale of any such products currently offered for sale pursuant to such arrangements.

ARTICLE III

PURCHASE PRICE

3.1. Purchase Price. The purchase price for the Purchased Assets (the "Purchase Price") shall be equal to $31,800,000 (the "Preliminary Purchase Price"), as adjusted pursuant to Section 3.2 and Section 3.5 below. The Purchase Price shall be paid by Buyer in cash pursuant to Section 4.2 hereof.

3.2. Adjustment to Preliminary Purchase Price. (a) If the Adjusted Purchase Price (as herein defined) is less than the Preliminary Purchase Price, the Preliminary Purchase Price shall be decreased by the amount of such difference (the "Purchase Price Adjustment Amount").

(b) For purposes of Sections 3.2 and 3.4, the following terms have the

following meanings:

"Adjusted Purchase Price" means the Preliminary Purchase Price, minus the Net Asset Adjustment, if any.

"Net Assets" means the Purchased Assets as shown on the Valuation Date Balance Sheet, excluding any amounts for Unfinished Goods shown thereon, minus Assumed Liabilities, excluding Trade Payables.

"Net Asset Adjustment" means an amount, if any, equal to the excess of $15,000,000 over the Net Assets shown on the Valuation Date Balance Sheet; provided, however, that if such amount is less than $ 1,500,000 then the Net Asset Adjustment shall be zero.

3.3. Determination of Inventory Adjustment Amount. (a) Prior to the Closing Date, Buyer shall be entitled to test the accuracy of the amounts of Inventory reflected in Parent's general ledger (the "Inventory Book Value"). Such testing shall consist of (A) tying the Inventory balance in Parent's general ledger to the Inventory balance in Parent's perpetual inventory system, (B) testing Parent's perpetual inventory system by performing a reasonable number of test counts, and (C) identifying slow moving and obsolete Inventory.

(b) If, as a result of the testing performed by Buyer described in clause (a) above, Buyer shall determine that the amounts of Inventory reflected on Parent's general ledger are acceptable, then for purposes of determining the amount of Net Assets as of the Closing Date and the Amount of the Deferred Closing Unfinished Goods Inventory, Inventory shall be determined by the amount of Inventory reflected on Parent's general ledger.

(c) If, as a result of the testing performed by Buyer described in clause (a) above, Buyer shall determine that the amounts of Inventory reflected on Parent's general ledger are not acceptable, Parent shall cause a special audit of the physical Inventory (the "Special Audit") to be conducted by Deloitte & Touche for purposes of verifying the amount of Inventory (the "Physical Inventory Value"). Such Special Audit shall be conducted as of the Closing Date with respect to all Inventory other than Unfinished Goods and as of the Deferred Closing Date with respect to Unfinished Goods. Buyer and Buyer's representatives shall be permitted to observe the Special Audit. Upon completion of the Special Audits (but not later than 30 days after the Closing Date or the Deferred Closing Date, as the case may be), Parent shall prepare and deliver schedules to Buyer setting forth the Physical Inventory Value (excluding Unfinished Goods) as of the Closing Date and Unfinished Goods as of the Deferred Closing Date observed during the Special Audit. Such schedules shall be prepared in accordance with the Agreed Accounting Principles, including:

(i) a breakdown of the physical Inventory present as of the effective date of the audit, including each item included in such Inventory, the quantities of each such item and the value of each such

item;

(ii) adequate documentation supporting the aggregate purchased quantities and aggregate purchased cost for the physical Inventory; and

(iii) the method (e.g., average cost or market value) used for calculation of the Physical Inventory Value as of the effective date of the audit.

(d) Promptly following its receipt of the Physical Inventory Value schedule, Buyer may review the same and, within 20 days after the date of such receipt, may deliver to Parent a certificate setting forth its objections to the calculation of the Physical Inventory Value as set forth in the Physical Inventory Value schedule, together with a summary of the reasons therefor and calculations which, in its view, are necessary to eliminate such objections. In the event that Buyer does not so object within such 20-day period, the Physical Inventory Value set forth in the Physical Inventory Value schedule shall be final and binding for purposes of this Agreement but shall not limit the representations, warranties, covenants and agreements of the parties set forth elsewhere in this Agreement.

(e) In the event that the Buyer objects within such 20-day period, the parties shall use their reasonable efforts to resolve by written agreement any differences as to the Physical Inventory Value and, in the event parties so resolve (in writing) any such differences, the Physical Inventory Value (as adjusted) shall be final and binding for purposes of this Agreement but shall not limit the representations, warranties, covenants and agreements of the parties set forth elsewhere in this Agreement.

(f) In the event any objections relating to the calculation of the Physical Inventory Value raised by Buyer are not resolved within the 15-day period next following such 20-day period, then the matter shall be referred to a firm of independent certified public accounts as the parties mutually agreement (the "Independent Accountant") for resolution. The Independent Accountant shall be instructed to use every reasonable effort to resolve the matter within 15 days of the submission to it of the dispute and, in any case, as soon as practicable after such submission. The decision of the Independent Accountant with respect to any such disputed item shall be final, binding and conclusive on the parties and there shall be no right of appeal therefrom. The fees, costs and expenses of the Independent Accountant shall be shared equally by Buyer and Parent.

3.4. Determination of Net Asset Adjustment. (a) As soon as possible, but in any event on or before the 60th day following the Closing Date, Buyer shall prepare and distribute to Parent (i) an unaudited balance sheet of the Business as of the close of business on the Closing Date (the "Valuation Date Balance Sheet") and (ii) a report (the "Adjustment Report") setting forth the

Adjusted Purchase Price and the Net Asset Adjustment, along with a calculation of each such item. Buyer shall prepare the Valuation Date Balance Sheet in accordance with Agreed Accounting Principles.

(b) Promptly following its receipt of the Valuation Date Balance Sheet and the Adjustment Report, Parent may review same. The Valuation Date Balance Sheet and the Adjustment Report will be deemed to be accepted by the parties hereto and shall be conclusive for purposes of determining the Adjusted Purchase Price and the Net Asset Adjustment, except to the extent that, within 20 days after the date of such receipt, Parent may deliver to Buyer describing in reasonable detail its objections (if any) thereto, specifying the amount in dispute together with a summary of the reasons therefor and calculations which, in its view, are necessary to eliminate such objections. Buyer and Parent shall use reasonable efforts to resolve any such objections in good faith, but if they do not obtain a final resolution within 15 days after Parent has delivered the statement of objections, then the Independent Accountant shall be retained to resolve any remaining objections and shall within 25 days after submission determine and report to Buyer and Parent upon such remaining disputed items. The fees, costs and expenses of the Independent Accountant shall be shared equally by Buyer and Parent.

(c) Promptly (but not later than 5 days) after the determination of the Adjusted Purchase Price pursuant to Sections 3.2 and 3.4 that is final and binding as set forth herein, Parent shall pay to Buyer, the Purchase Price Adjustment Amount, if any, by wire transfer of immediately available funds to the account in the United States specified by Buyer.

3.5. Deferred Closing Adjustment to Purchase Price. (a) Within 60 days following the termination of the Contract Manufacturing Agreement as provided therein, Buyer shall prepare and distribute to Parent (i) a schedule setting forth the amount of the Unfinished Goods as of such termination date (the "Deferred Closing Unfinished Goods Inventory") and each item included therein, the quantities of each such item and the value of each such item determined in accordance with the Agreed Accounting Principles; (ii) a schedule setting forth the amount of the Trade Payables as of such date (the "Deferred Closing Trade Payables"); and (iii) a report setting forth the Deferred Closing Purchase Price Adjustment Amount as determined in accordance with Section 3.5(c) (collectively, such schedules and report shall be hereinafter referred to as the "Deferred Closing Adjustment Report").

(b) Promptly following its receipt of the Deferred Closing Adjustment Report, Parent may review same. The Deferred Closing Adjustment Report will be deemed to be accepted by the parties hereto and shall be conclusive for purposes of determining the Deferred Closing Unfinished Goods Inventory, Deferred Closing Trade Payables and the Deferred Closing Purchase Price Adjustment Amount, except to the extent that, within 20 days after the date of such receipt, Parent may deliver to Buyer describing in reasonable detail its objections (if any) thereto, specifying the amount in dispute together with a summary of the reasons therefor and calculations which, in its view, are necessary to eliminate such objections. Buyer and Parent shall use reasonable efforts to resolve any such objections in good faith, but if they do not obtain a final resolution within 10

days after Parent has delivered the statement of objections, then the Independent Accountant shall be retained to resolve any remaining objections and shall within 15 days after submission determine and report to Buyer and Parent upon such disputed items. The fees, costs and expenses of the Independent Accountant shall be shared equally by Buyer and Parent.

(c) The "Deferred Closing Purchase Price Adjustment Amount" shall be equal to the Net Inventory Base minus the Net Deferred Closing Inventory. For purposes of this Section 3.5, "Net Deferred Closing Inventory" means the Deferred Closing Unfinished Goods Inventory minus the Deferred Closing Trade Payables.

(d) Promptly (but not later than 5 days) after determination of the Deferred Closing Purchase Price Adjustment Amount pursuant to this Section 3.5 that is final and binding as set forth herein, Parent shall pay to Buyer, the Deferred Closing Purchase Price Adjustment Amount, if any, by wire transfer of immediately available funds to the account in the United States specified by Buyer.

3.6. Allocation of Purchase Price. Within 30 days following the Deferred Closing Date, Buyer shall deliver to Parent a schedule (the "Allocation Schedule") allocating the Purchase Price (including, for purposes of this Section 3.6, any other consideration paid to Parent including the Assumed Liabilities) among the Purchased Assets and the covenants of Parent in Section 8.1. The Allocation Schedule shall be reasonable and shall be prepared in accordance with Section 1060 of the Code and the regulations thereunder. Parent agrees that promptly after receiving the Allocation Schedule, it shall sign the Allocation Schedule and return an executed copy thereof to Buyer. Buyer and Parent each agrees to file Internal Revenue Service Form 8594, and all federal, state, local and foreign Tax Returns, in accordance with the Allocation Schedule. Buyer and Parent each agrees to provide the other promptly with any other information required to complete Form 8594.

ARTICLE IV

CLOSING

4.1. Closing Date. The Closing shall be consummated at 10:00 A.M., local time, on the third business day following the expiration or termination of the waiting period under the HSR Act, or such later date as may be agreed upon by Buyer and Parent after the conditions set forth in Articles IX and X have been satisfied, at the offices of Sidley & Austin, One First National Plaza, Chicago, IL 60603, or at such other place or at such other time as shall be agreed upon by Buyer and Parent, except that the closing with respect to the

Unfinished Goods and Trade Payables shall be consummated as provided in Section 4.5. The time and date on which the Closing is actually held are sometimes referred to herein as the "Closing Date."

4.2. Payment on the Closing Date; Escrow. (a) Subject to fulfillment or waiver of the conditions set forth in Article IX, at Closing Buyer shall pay MedSurg an amount equal to the Preliminary Purchase Price less the Escrowed Amount (as defined below) by wire transfer of immediately available funds to the account in the United States specified by Parent in writing to Buyer at least two business days prior to the Closing.

(b) On or prior to the Closing Date, Buyer, MedSurg and the First National Bank of Chicago, as escrow agent (the "Escrow Agent"), shall enter into an Escrow Agreement in the form of Exhibit E (the "Escrow Agreement") providing for the establishment of an escrow account (the "Escrow Account") with the Escrow Agent to secure the obligations of Parent to Buyer (and any Buyer Group Member) pursuant to Article XI hereof. No right or remedy given by any term of the Escrow Agreement shall be deemed exclusive, but each shall be cumulative with all other rights, remedies and elections available under this Agreement, at law or in equity. At the Closing, there shall be deposited in the Escrow Account 10% of the sum of Preliminary Purchase Price (the "Escrowed Amount"), which shall be subsequently disbursed in accordance with the terms, conditions and provisions of the Escrow Agreement. The Escrow Agent=s fees shall be shared equally by Buyer and Parent.

4.3. Buyer's Additional Deliveries. Subject to fulfillment or waiver of the conditions set forth in Article IX, at Closing Buyer shall deliver to MedSurg all the following:

(a) Copies of Buyer's Certificate of Incorporation, as amended, certified as of a recent date by the Secretary of State of the State of Delaware;

(b) Certificate of good standing of Buyer issued as of a recent date by the Secretary of State of the State of Delaware;

(c) Certificate of the secretary or an assistant secretary of Buyer, dated the Closing Date, in form and substance reasonably satisfactory to Parent, as to (i) no amendments to the Certificate of Incorporation of Buyer since a specified date; (ii) the by-laws of Buyer; (iii) the resolutions of the Board of Directors of Buyer authorizing the execution and performance of this Agreement and the transactions contemplated hereby; and (iv) incumbency and signatures of the officers of Buyer executing this Agreement and any Buyer Ancillary Agreement;

(d) Opinions of Buyer's General Counsel and Sidley & Austin substantially in the forms contained in Exhibit F;

(e) The Instrument of Assumption duly executed by Buyer, as set forth in Exhibit B-1;

(f) The certificate contemplated by Section 10.1, duly executed by the President or any Vice President of Buyer;

(g) The Escrow Agreement duly executed by Buyer;

(h) The Supply & License Agreement duly executed by Buyer; and

(i) The Contract Manufacturing Agreement duly executed by Buyer.

4.4. Parent's Deliveries. Subject to fulfillment or waiver of the conditions set forth in Article X, at Closing Parent shall deliver to Buyer all the following:

(a) Copies of the Articles of Incorporation, as amended, of Parent and MedSurg certified as of a recent date by the Secretary of State of the State of Georgia;

(b) Certificate of good standing of Parent and MedSurg issued as of a recent date by the Secretary of State of the State of Georgia;

(c) Certificate of the secretary or an assistant secretary of Parent, dated the Closing Date, in form and substance reasonably satisfactory to Buyer, as to (i) no amendments to the Articles of Incorporation of Parent and MedSurg since a specified date; (ii) the by-laws of Parent and MedSurg; (iii) the resolutions of the Board of Directors of Parent and of the Board of Directors and/or stockholders of MedSurg authorizing the execution and performance of this Agreement and the transactions contemplated hereby; and (iv) incumbency and signatures of the officers of Parent and MedSurg executing this Agreement and any Parent Ancillary Agreement;

(d) Opinion of counsel to Parent substantially in the form contained in Exhibit G;

(e) The Instrument of Assignment duly executed by MedSurg, as set forth in Exhibit A-1;

(f) Certificates of title or origin (or like documents) with respect to any vehicles or other equipment included in the Purchased Assets for which a certificate of title or origin is required in order to transfer title;

(g) Any other assignments or instruments with respect to any

Intellectual Property included in the Purchased Assets for which an assignment or instrument is required to assign, transfer and convey such assets to Buyer;

(h) All consents, waivers or approvals obtained by Parent or MedSurg with respect to the Purchased Assets or the consummation of the transactions contemplated by this Agreement;

(i) The Supply & License Agreement duly executed by Parent;

(j) The Escrow Agreement duly executed by MedSurg;

(k) The Contract Manufacturing Agreement duly executed by Parent and MedSurg;

(l) The certificates contemplated by Sections 9.1 and 9.2, duly executed by the President or any Vice President of Parent;

(m) Such other bills of sale, assignments and other instruments of transfer or conveyance as Buyer may reasonably request or as may be otherwise necessary to evidence and effect the sale, assignment, transfer, conveyance and delivery of the Purchased Assets to Buyer;

(n) Such lien releases and termination statements or other reasonable evidence as Buyer may require relating to the release of any Encumbrances (other than Permitted Encumbrances) which may exist with respect to any Purchased Assets; and

(o) Documentation deemed adequate by Buyer demonstrating full compliance with any applicable environmental property transfer act.

In addition to the above deliveries, Parent and MedSurg shall take all steps and actions as Buyer may reasonably request or as may otherwise be necessary to put Buyer in actual possession or control of the Purchased Assets.

4.5. Deferred Closing. The closing with respect to the Unfinished Goods and Trade Payables (the "Deferred Closing") shall be consummated at 10:00 A.M., local time on the first day following the termination of the Contract Manufacturing Agreement, at the offices of Sidley & Austin, One First National Plaza, Chicago, IL 60603, or at such other place or at such other time as shall be agreed upon by Buyer and Parent. At the Deferred Closing:

(a) MedSurg shall sell, transfer, assign, convey and deliver to Buyer, and Buyer shall purchase, free and clear of all Encumbrances (except for Permitted Encumbrances), the Unfinished Goods;

(b) Buyer shall assume all liabilities for the Deferred

Closing Trade Payables and shall deliver to MedSurg the Instrument of Assumption duly executed by Buyer as set forth in Exhibit B-2;

(c) Parent shall (i) provide any documents, instruments or assignments, including the Instrument of Assignment as set forth in Exhibit A-2 and (ii) take all steps and actions as Buyer may reasonably request or as may be necessary to put Buyer in actual possession or control of the Unfinished Goods and Trade Payables;

(d) Notwithstanding Sections 2.4(p) or 8.5 of this Agreement, Buyer shall pay MedSurg on the date of the Deferred Closing as additional purchase price an amount equal to the lesser of: (i) the sum of (A) $250,000, and (B) any unused vacation accrued on the books of MedSurg as of the date of the Deferred Closing and any severance, in each case payable to the employees of MedSurg as a result of any termination of employment as of the date of the Deferred Closing; or (ii) $1,200,000, by wire transfer of immediately available funds to an account in the United States specified by Parent in writing to Buyer at least two business days prior to the Deferred Closing; and

(e) MedSurg shall sell, transfer, assign and convey to Buyer, and Buyer shall purchase free and clear of all Encumbrances (except for Permitted Encumbrances), the name "MedSurg Industries, Inc." and MedSurg shall promptly after the Deferred Closing change its corporate name to a name that does not include "MedSurg" or any variation thereof.

4.6. Payments in Connection with Certain Personal Property Leases. (a) Buyer shall pay Computer Associates International, Inc., ("CA") on behalf of Parent the remaining unpaid license fees in accordance with paragraph 1 of Exhibit H in connection with the Order Form between Parent and CA dated July 31, 1997, as amended (the "CA License Agreement").

(b) Buyer shall pay IBM Credit Corporation ("IBM") on behalf of Parent the remaining unpaid license fees in accordance with paragraph 2 of Exhibit H in connection with the Term Lease Master Agreement between Parent and IBM dated October 14, 1996, as amended (the "IBM Lease").

(c) To the extent that either the CA License Agreement or the IBM Lease are modified such that the outstanding license fee payments set forth in Exhibit H are reduced, Buyer shall only be obligated to pay such reduced license fee amounts.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PARENT AND MEDSURG

As an inducement to Buyer to enter into this Agreement and to consummate the transactions contemplated hereby, Parent and MedSurg represent and warrant to Buyer and agree as follows:

5.1. Organization of Parent. Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Georgia. Parent is duly qualified to transact business as a foreign corporation and is in good standing in each of the jurisdictions listed in Schedule 5.1. Such jurisdictions are the only ones in which the ownership or leasing of its properties or the conduct of its Business requires such qualification. Except as set forth in Schedule 5.1, no other jurisdiction has demanded, requested or otherwise indicated that Parent is required so to qualify. Parent has full corporate power and authority to own or lease and to operate and use the Purchased Assets and to carry on the Business as now conducted.

True and complete copies of the certificate or articles of incorporation and all amendments thereto and of the By-laws, as amended to date, of Parent have been delivered to Buyer.

5.2. Subsidiaries and Investments. (a) Except for MedSurg, Parent does not, directly or indirectly, (i) own, of record or beneficially, any outstanding voting securities or other equity interests in any Person which is involved in, or relates to, or holds assets used primarily in the Business or (ii) control any Person which is involved in, or relates to, or holds assets used primarily in the Business.

(b) MedSurg is a corporation duly organized, validly existing and in good standing under the laws of the State of Georgia. MedSurg is duly qualified to transact business as a foreign corporation and is in good standing in each of the jurisdictions listed in Schedule 5.2(A). Such jurisdictions are the only ones in which the ownership or leasing of the Purchased Assets or the conduct of the Business requires such qualification. Except as set forth in Schedule 5.2(A), no other jurisdiction has demanded, requested or otherwise indicated that MedSurg is required so to qualify on account of the ownership or leasing of the Purchased Assets or the conduct of the Business. MedSurg has full power and authority to own or lease and to operate and use the Purchased Assets and to carry on the Business as now conducted.

All of the outstanding shares of capital stock of MedSurg are validly issued, fully paid and nonassessable. All of the outstanding shares of capital stock of MedSurg are owned by Parent of record and beneficially.

True and complete copies of the articles of incorporation and all amendments thereto and of the By-laws, as amended to date, of MedSurg have been delivered to Buyer.

5.3. Authority of Parent. Parent has full power and authority to execute, deliver and perform this Agreement and each of the Parent Ancillary Agreements to which it is a party. MedSurg has full power and authority to execute, deliver and perform each of the Parent Ancillary Agreements to which it is a party. The execution, delivery and performance of this Agreement and the Parent Ancillary Agreements by Parent and MedSurg, as the case may be, have been duly authorized and approved by Parent's board of directors and by the board of directors and stockholders of MedSurg and do not require any further authorization or consent of Parent or its stockholders. Assuming that this Agreement and each of the Parent Ancillary Agreements to which Buyer is a party constitutes a valid and binding agreement of Buyer, this Agreement has been duly authorized, executed and delivered by Parent and is the legal, valid and binding obligation of Parent enforceable in accordance with its terms, and each of the Parent Ancillary Agreements has been duly authorized by Parent and MedSurg and upon execution and delivery by Parent or MedSurg, as the case may be, will be a legal, valid and binding obligation of Parent enforceable in accordance with its terms.

Except as set forth in Schedule 5.3, neither the execution and delivery of this Agreement or any of the Parent Ancillary Agreements or the consummation of any of the transactions contemplated hereby nor compliance with or fulfillment of the terms, conditions and provisions hereof will:

(i) conflict with, result in a breach of the terms, conditions or provisions of, or constitute a default, an event of default or an event creating rights of acceleration, termination or cancellation or a loss of rights under, or result in the creation or imposition of any Encumbrance upon any of the Purchased Assets, under (1) the charter or By-laws of Parent or MedSurg, (2) any Parent Agreement, (3) any other note, instrument, agreement, mortgage, lease, license, franchise, permit or other authorization, right, restriction or obligation to which Parent or MedSurg is a party or any of the Purchased Assets is subject or by which Parent is bound, (4) any Court Order to which Parent or MedSurg is a party or any of the Purchased Assets is subject or by which Parent or MedSurg is bound, or (5) any Requirements of Laws affecting Parent, MedSurg or the Purchased Assets; or

(ii) require the approval, consent, authorization or act of, or the making by Parent, MedSurg or the Business of any declaration, filing or registration with, any Person, except as provided under the HSR Act.

5.4. Financial Statements. Schedule 5.4 contains (i) the unaudited balance sheets of the Business as of December 31, 1997 and 1998 and the related statements of income and cash flows for the years then ended and (ii) the unaudited balance sheet of the Business as of April 30, 1999 and the related statements of income and cash flows for the four months then ended. Such balance sheets and statements of income and cash flow, have been prepared in conformity with generally accepted accounting principles consistently applied, and such balance sheets and related statements of income and cash flow present fairly the

financial position and results of operations of the Business as of their respective dates and for the respective periods covered thereby.

5.5. Operations Since Balance Sheet Date. (a) Except as set forth in Schedule 5.5(A), since the Balance Sheet Date, there has been:

(i) no material adverse change in the Facilities, the Purchased Assets, the Business or the operations, liabilities, profits, prospects or condition (financial or otherwise) of the Business, and to the knowledge of Parent or MedSurg no fact or condition exists or is contemplated or threatened which might reasonably be expected to cause such a change in the future; and

(ii) no material damage, destruction, loss or claim, whether or not covered by insurance, or condemnation or other taking adversely affecting any of the Facilities, the Purchased Assets or the Business.

(b) Except as set forth in Schedule 5.5(B), since the Balance Sheet Date, each of Parent and MedSurg has conducted the Business only in the ordinary course and in conformity with past practice. Without limiting the generality of the foregoing, since the Balance Sheet Date, except as set forth in such Schedule, neither Parent nor MedSurg has in respect of the Business:

(i) sold, leased (as lessor), transferred or otherwise disposed of (including any transfers (other than transfers of cash) from the Business to Parent or any of its Affiliates), or mortgaged or pledged, or imposed or suffered to be imposed any Encumbrance on, any of the assets reflected on the Balance Sheet or any assets acquired by the Business after the Balance Sheet Date, except for Inventory and minor amounts of personal property sold or otherwise disposed of for fair value in the ordinary course of the Business consistent with past practice and except for Permitted Encumbrances;

(ii) canceled any debts owed to or claims held by the Business (including the settlement of any claims or litigation) or waived any other rights held by the Business other than in the ordinary course of the Business consistent with past practice;

(iii) created, incurred or assumed, or agreed to create, incur or assume, any indebtedness for borrowed money in respect of the Business (other than money borrowed or advances from Parent or any of its Affiliates in the ordinary course of the Business consistent with past practice) or entered into, as lessee, any capitalized lease obligations (as defined in Statement of Financial Accounting Standards No. 13);

(iv) accelerated or delayed collection of notes or accounts receivable generated by the Business in advance of or beyond their regular due dates or the dates when the same would have been collected in the ordinary course of the Business consistent with past practice;

(v) delayed or accelerated payment of any account payable or other liability of the Business beyond or in advance of its due date or the date when such liability would have been paid in the ordinary course of the Business consistent with past practice;

(vi) allowed the levels of Inventory of the Business to vary in any material respect from the levels customarily maintained in the Business;

(vii) made, or agreed to make, any payment of cash or distribution of assets to Parent or any of its Affiliates (other than cash realized upon collection of receivables in the ordinary course of the Business);

(viii) instituted any increase in any compensation payable to any employee of either Parent or MedSurg with respect to the Business or in any profit-sharing, bonus, incentive, deferred compensation, insurance, pension, retirement, medical, hospital, disability, welfare or other benefits made available to employees of either Parent or MedSurg with respect to the Business;

(ix) made any change in the accounting principles and practices used by either Parent or MedSurg or the Business;

(x) paid any claims against the Business (including the settlement of any claims and litigation against the Business or the payment or settlement of any obligations or liabilities of the Business) other than in the ordinary course of the Business consistent with past practice;

(xi) acquired any real property or undertaken or committed to undertake capital expenditures exceeding $25,000 in the aggregate; or

(xii) entered into or become committed to enter into any other transaction material to the Business except in the ordinary course of the Business.

5.6. No Undisclosed Liabilities. Except as set forth in Schedule 5.6, neither Parent nor MedSurg is subject, with respect to the Business, to any liability (including, without limitation, unasserted claims, whether known or unknown) required to be recorded under generally accepted accounting principles, whether absolute, contingent, accrued or otherwise, which is not shown or which is in excess of amounts shown or reserved for in the Balance Sheet, other than

(a) liabilities of the same nature as those set forth in the Balance Sheet and the notes thereto and reasonably incurred in the ordinary course of the Business after the Balance Sheet Date and (b) liabilities under or reflected in this Agreement or the Schedules hereto.

5.7. Taxes. (a) Except as set forth in Schedule 5.7, (i) Parent or MedSurg has, in respect of the Business and the Purchased Assets, filed all Tax Returns which are required to be filed prior to the date hereof and have paid all Taxes which have become due pursuant to such Tax Returns or pursuant to any assessment which has become payable except such taxes, if any, as not yet due and are being contested in good faith and which are either fully reserved on the Balance Sheet or accrued after April 30, 1999; (ii) all such Tax Returns are complete and accurate and disclose all Taxes required to be paid in respect of the Business and, the Purchased Assets; (iii) all such Tax Returns have been examined by the relevant taxing authority or the period for assessment of the Taxes in respect of which such Tax Returns were required to be filed has expired; (iv) there is no action, suit, investigation, audit, claim or assessment pending or, to the knowledge of Parent or MedSurg, proposed or threatened with respect to Taxes of the Business or, the Purchased Assets, (v) Parent has not waived or been requested to waive any statute of limitations in respect of Taxes associated with the Business or the Purchased Assets; (vi) all monies required to be withheld by Parent from employees for income Taxes and social security and other payroll Taxes have been collected or withheld, and either paid to the respective taxing authorities, set aside in accounts for such purpose, or accrued, reserved against and entered upon the books of the Business; (vii) no transaction contemplated by this Agreement is subject to withholding under Section 1445 of the Code and no stock transfer taxes, real estate transfer taxes, or other similar taxes will be imposed on the transfer of the Purchased Assets pursuant to this Agreement; (viii) following the Closing Date, pursuant to any agreement or arrangement entered into by Parent on or prior to the Closing Date, Buyer will not be obligated to make a payment to an individual that would be a "parachute payment" to a "disqualified individual" as those terms are defined in Section 280G of the Code, without regard to whether such payment is reasonable compensation for personal services performed or to be performed in the future.

(b) Parent is properly treated as the owner, for all federal, state, local and other income Tax purposes, of all property of which it is the lessor.

5.8. Availability of Assets. (a) Except as set forth in Schedule 5.8 and except for the Excluded Assets, the Purchased Assets constitute all the assets used, or held for use in, or otherwise relating to the Business (including, but not limited to, all books, records, computers and computer programs and data processing systems). Each tangible asset of the Business has been maintained in accordance with normal industry practice, is in good operating condition and repair (subject to normal wear and tear), and is

suitable for the purposes for which it presently is used and presently is proposed to be used.

(b) Schedule 5.8 sets forth a description of all material services provided by Parent or any Affiliate of Parent with respect to the Business utilizing either (i) assets not included in the Purchased Assets or (ii) employees of Parent or any of its Affiliates.

5.9. Governmental Permits. Either Parent or MedSurg owns, holds or possesses all licenses, franchises, permits, registrations, certifications, privileges, immunities, approvals and other authorizations from a Governmental Authority which are necessary to entitle it to own or lease, operate and use the Purchased Assets and to carry on and conduct the Business substantially as currently conducted (herein collectively called the "Governmental Permits"), and has made all filings with, or notifications to, all Medical Product Regulatory Authorities required pursuant to Requirements of Law. Schedule 5.9 sets forth a list and brief description, including the identity of the holder of such Governmental Permits, of each Governmental Permit relating to the Purchased Assets or the Business other than any Governmental Permit that is not material to the Business and that is readily obtainable by Buyer without undue cost or delay. Complete and correct copies of all of the Governmental Permits have heretofore been delivered to Buyer by Parent.

Except as set forth in Schedule 5.9, (i) each of Parent and MedSurg has fulfilled and performed its respective obligations under the Governmental Permits, and no event has occurred or condition or state of facts exists which constitutes or, after notice or lapse of time or both, would constitute a breach or default under any such Governmental Permit or which permits or, after notice or lapse of time or both, would permit revocation or termination of any such Governmental Permit, or which might adversely affect the rights of either Parent or MedSurg, as the case may be, under any such Governmental Permit; (ii) no notice of cancellation, of default or of any dispute concerning any Governmental Permit, or of any event, condition or state of facts described in the preceding clause, has been received by, or is known to, either Parent or MedSurg; and (iii) each of the Governmental Permits is valid, subsisting and in full force and effect and may be assigned and transferred to Buyer in accordance with this Agreement and will continue in full force and effect thereafter, in each case without (x) the occurrence of any breach, default or forfeiture of rights thereunder, or (y) the consent, approval, or act of, or the making of any filing with, any Governmental Authority.

5.10. Real Property. Neither Parent nor MedSurg (i) owns any real property, (ii) is presently a party to any agreement to purchase any real property or (iii) has previously sold or otherwise conveyed any real property, or terminated a leasehold, under circumstances which could give rise to any continuing obligation or liability on the part of either Parent or MedSurg relating to the Purchased Assets or the Business. Schedule 5.10 sets forth a list of all real property used, or held for use in, or otherwise relating to the

Business previously owned or occupied by Parent or MedSurg disposed prior to the date hereof and all businesses previously conducted by Parent, MedSurg or to the knowledge of Parent or MedSurg any of its predecessors discontinued prior to the date hereof.

5.11. Real Property Leases. Schedule 5.11 sets forth a list and brief description of each lease or similar agreement under which (i) either Parent or MedSurg is lessee of, or holds or operates, any real property owned by any third Person and used, or held for use in, or otherwise relating to the Business or (ii) either Parent or MedSurg is lessor of any of owned real property used, or held for use in, or otherwise relating to the Business (the "Leased Real

Property"). Except as set forth in such Schedule and subject to compliance with applicable laws and the applicable underlying lease, Parent and MedSurg have the right to quiet enjoyment of all the real property described in such Schedule for the full term of each such lease or similar agreement (and any renewal option related thereto) relating thereto, and the leasehold or other interest of either Parent or MedSurg in such real property is not subject or subordinate to any Encumbrance except for Permitted Encumbrances. Complete and correct copies of any title opinions, surveys and appraisals in Parent or MedSurg's possession or any policies of title insurance currently in force and in the possession of either Parent or MedSurg with respect to each such parcel of leased property included as part of the Purchased Assets have heretofore been delivered by Parent to Buyer.

5.12. Condemnation. Neither the whole nor any part of any real property leased, used or occupied in connection with the Business is subject to any pending suit for condemnation or other taking by any public authority, and, to the best knowledge of Parent, no such condemnation or other taking is threatened or contemplated.

5.13. Personal Property. Schedule 5.13 contains a detailed list of all machinery, equipment, vehicles, furniture and other personal property owned by either Parent or MedSurg and used, or held for use in, or otherwise relating to the Business.

5.14. Personal Property Leases. Schedule 5.14 contains a brief description of each lease or other agreement or right, whether written or oral (including in each case the annual rental, the expiration date thereof and a brief description of the property covered), under which either Parent or MedSurg is lessee of, or holds or operates, any machinery, equipment, vehicle or other tangible personal property owned by a third Person and used, or held for use in, or otherwise relating to the Business.

5.15. Intellectual Property; Software. (a) Schedule 5.15 contains a list and description (showing in each case any product, device, process, service, business or publication covered thereby, the registered or other owner, expiration date and number, if any) of all Copyrights, Patent Rights and

Trademarks (including all assumed or fictitious names under which either Parent or MedSurg is conducting the Business or has within the previous five years conducted the Business) owned by, licensed to or used by either Parent or MedSurg in connection with the conduct of the Business.

(b) Schedule 5.15 contains a list and description (showing in each case any owner, licensor or licensee) of all Software owned by, licensed to or used by either Parent or MedSurg in the conduct of the Business, provided that Schedule 5.15 does not list Software licensed to either Parent or MedSurg that is available in consumer retail stores and subject to "shrink-wrap" license agreements.

(c) Schedule 5.15 contains a list and description of all Contracts, licenses, sublicenses, assignments and indemnities which relate to (i) any Copyrights, Patent Rights or Trademarks listed in Schedule 5.15, (ii) any material Trade Secrets owned by, licensed to or used by either Parent or MedSurg in connection with the conduct of the Business (except implicit Trade Secrets or other Intellectual Property associated with the distribution of products in the ordinary course of the Business) or (iii) any Software listed in Schedule 5.15.

(d) Except as disclosed in Schedule 5.15, either Parent or MedSurg: (i) owns the entire right, title and interest in and to the Intellectual Property included in the Purchased Assets, free and clear of any Encumbrance, or (ii) has the perpetual, royalty-free right to use the same.

(e) Except as disclosed in Schedule 5.15: (i) all registrations for Copyrights, Patent Rights and Trademarks identified in Schedule 5.15 as being owned by either Parent or MedSurg are valid and in force, and all applications to register any unregistered Copyrights, Patent Rights and Trademarks so identified are pending and in good standing, all without challenge of any kind; (ii) the Intellectual Property owned by Parent is valid and enforceable; and (iii) each of Parent and MedSurg has the sole and exclusive right to bring actions for infringement or unauthorized use of the Intellectual Property and Software owned by either Parent and MedSurg, as the case may be, and included in the Purchased Assets. Correct and complete copies of: (x) registrations for all registered Copyrights, Patent Rights and Trademarks identified in Schedule 5.15 as being owned by either Parent and MedSurg; and (y) all pending applications to register unregistered Copyrights, Patent Rights and Trademarks identified in Schedule 5.15 as being owned by either Parent and MedSurg (together with any subsequent correspondence or filings relating to the foregoing) have heretofore been delivered by Parent to Buyer.

(f) Except as set forth in Schedule 5.15, no infringement of any Intellectual Property of any other Person has occurred or results in any way from the operations of the Business, no claim of any infringement of any Intellectual Property of any other Person has been made or asserted in respect of the operations of the Business and neither Parent nor MedSurg has had notice of, or knowledge of any basis for, a claim against either Parent or MedSurg that

the operations, activities, products, software, equipment, machinery or processes of the Business infringe any Intellectual Property of any other Person.

(g) [INTENTIONALLY BLANK]

(h) Except as disclosed in Schedule 5.15, all employees, agents, consultants or contractors who have contributed to or participated in the creation or development of any copyrightable, patentable or trade secret material on behalf of Parent, MedSurg or any predecessor in interest thereto either: (i) are a party to a "work-for-hire" agreement under which Parent or MedSurg are deemed to be the original owner/author of all property rights therein; or (ii) have executed an assignment or an agreement to assign in favor of Parent (or such predecessor in interest, as applicable) of all right, title and interest in such material.

(i) Except as disclosed in Schedule 5.15, (i) each microprocessor, computer, computer program and other item of Software (whether installed on a computer or on any other piece of equipment, including firmware) that is owned, licensed or used by either Parent or MedSurg for use in the Business or in any Product is Year 2000 Compliant, (ii) each microprocessor, computer program and other item of Software that has been designed, developed, sold, licensed or otherwise made available to any Person by either Parent or MedSurg is Year 2000

Compliant, (iii) each of Parent and MedSurg has conducted sufficient Year 2000 compliance testing for each microprocessor, computer, computer program and item of Software referred to above to be able to determine whether such computer, computer program and items of Software is Year 2000 Compliant, and have obtained warranties or other written assurances from each of its suppliers to the effect that the products and services provided by such suppliers to Parent and MedSurg are Year 2000 Compliant and (iv) the Business has not sold, licensed or otherwise made available to any Person products that process data.

5.16. Accounts Receivable; Inventories. All accounts receivable of the Business have arisen from bona fide transactions by Parent or MedSurg in the ordinary course of the Business.

Except to the extent reserved on the books and records of the Business, all Inventory of the Business (i) is in good, merchantable and useable condition, (ii) is reflected in the Balance Sheet and will be reflected in the Valuation Date Balance Sheet at the lower of cost or market in accordance with generally accepted accounting principles and (iii) is, in the case of finished goods, of a quality and quantity saleable in the ordinary course of the Business and, in the case of all other Inventory is of a quality and quantity useable in the ordinary course of the Business. The Inventory obsolescence policies of the Business are appropriate for the nature of the products sold and the marketing methods used by the Business, the reserve for Inventory obsolescence contained in the Balance Sheet fairly reflects the amount of obsolete Inventory as of the

Balance Sheet Date, and the reserve for Inventory obsolescence to be contained in the Valuation Date Balance Sheet will fairly reflect the amount of obsolete Inventory as of the Closing Date. Parent has heretofore delivered to Buyer a list of places where all material Inventory of the Business was located as of April 30, 1999. The quantity of materials, component parts and finished goods on hand is generally consistent with the levels of the same historically maintained by the Business recognizing that such levels will vary from time to time consistent with the past practices of the Business. Except for Inventory in transit to Parent from its suppliers, all Inventory is located at the premises of the Business. Since the Balance Sheet Date, Parent has continued to replenish the Inventory in a normal and customary manner consistent with prior practice. No purchase commitments of Parent are in excess of the normal, ordinary and usual requirements of its business, or were made at any price in excess of the then current market price, or contain terms and conditions more onerous than those usual and customary in the conduct of the Business.

5.17. Title to Property. Either Parent or MedSurg has good and marketable title to all of the Purchased Assets, free and clear of all Encumbrances, except for Permitted Encumbrances and except as set forth in Schedule 5.17. Upon delivery to Buyer on the Closing Date of the instruments of transfer contemplated by Section 4.4, Parent will thereby transfer, or cause to be transferred, to Buyer good and marketable title to the Purchased Assets (except for the Unfinished Goods to be transferred pursuant to Section 4.5), subject to no Encumbrances, except for Permitted Encumbrances and those matters described in Schedule 5.17.

5.18. Employees and Related Agreements; ERISA. Parent has no liability of any kind whatsoever, whether direct, indirect, contingent or otherwise, on account of (i) any violation of the health care requirements of Part 6 of Title I of ERISA or Section 4980B of the Code, (ii) under Section 502(i) or Section 502(l) of ERISA or Section 4975 of the Code, (iii) under Section 302 of ERISA or Section 412 of the Code or (iv) under Title IV of ERISA. No payments under any employee benefit plans, programs or arrangements of Parent or any of its Affiliates will be triggered as a result of Buyer's purchase of the Business assets for which Buyer or any of its Affiliates will bear any liability except as expressly set forth herein.

5.19. Employee Relations. Except as set forth in Schedule 5.19, each of Parent and MedSurg has complied in respect of the Business with all applicable laws, rules and regulations which relate to prices, wages, hours, discrimination in employment and collective bargaining and is not liable for any arrears of wages (other than normal accruals reflected in the books and records of the Business) or any taxes or penalties for failure to comply with any of the foregoing. Each of Parent and MedSurg is in compliance with the requirements of the Workers Adjustment and Retraining Notification Act (the "WARN Act") and has no liabilities pursuant to the WARN Act. Each of Parent and MedSurg believes that its relations with the employees of the Business are satisfactory. Neither Parent nor MedSurg is a party to, and the Business is not affected by or

threatened, to the knowledge of Parent and MedSurg, with, any dispute or controversy with a union or with respect to unionization or collective bargaining involving the employees of the Business. To the knowledge of Parent and MedSurg, none of Parent, MedSurg or the Business is materially affected by any dispute or controversy with a union or with respect to unionization or collective bargaining involving any supplier or customer of the Business. Schedule 5.19 sets forth a description of any union organizing or election activities involving any non-union employees of the Business which have occurred since April 30, 1994 or, to the knowledge of either Parent or MedSurg, are threatened as of the date hereof.

5.20. Contracts. Except as set forth in Schedule 5.20 or any other Schedule hereto, each of Parent and MedSurg, as the case may be, is not as of the date hereof, with respect to the Business, a party to or bound by:

(i) any Contract for the purchase or sale of real property;

(ii) any Contract for the purchase of raw materials which involved the payment of more than $50,000 in 1998, which either Parent or MedSurg reasonably anticipate will involve the payment of more than $50,000 in 1999 or which extends on a non-cancelable basis by Buyer beyond April 30, 2000;

(iii) any Contract for the sale of goods or services which involved the payment of more than $50,000 in 1998, which either Parent or MedSurg reasonably anticipate will involve the payment of more than $50,000 in 1999 or which extends on a non-cancelable basis by Buyer beyond April 30, 2000;

(iv) any Contract for the purchase, licensing or development of Software to be used by the Business;

(v) any consignment, distributor, dealer, manufacturers representative, sales agency, advertising representative or advertising or public relations Contract;

(vi) any guarantee of the obligations of customers, suppliers, officers, directors, employees, Affiliates or others;

(vii) any Contract which provides for, or relates to, the incurrence by the Business of debt for borrowed money (including, without limitation, any interest rate or foreign currency swap, cap, collar, hedge or insurance agreements, or options or forwards on such agreements, or other similar agreements for the purpose of managing the interest rate and/or foreign exchange risk associated with its financing);

(viii) any Contract with or for the benefit of any

Governmental Authority;

(ix) any Contract not made in the ordinary course that involves the expenditure or receipt by the Business of more than $10,000;

(x) any other Contract which is material to the Business;

(xi) any purchase order with a term of greater than 30 days or involving more than $10,000 in the aggregate; or

(xii) any sole source supply Contract for the purchase of raw material or a component that is otherwise not generally available and that is used in the manufacture of any product.

5.21. Status of Contracts. Except as set forth in Schedule 5.21 or in any other Schedule hereto, each of the Contracts listed in Schedules 5.11, 5.14, 5.15 and 5.20 (collectively, the "Parent Agreements") constitutes a valid and binding obligation of the parties thereto and is in full force and effect and (subject to the qualifications and exceptions set forth in Schedule 5.3 and except for those Parent Agreements which by their terms will expire prior to the Closing Date or are otherwise terminated prior to the Closing Date in accordance with the provisions hereof) may be transferred to Buyer pursuant to this Agreement and will continue in full force and effect thereafter, in each case without breaching the terms thereof or resulting in the forfeiture or impairment of any rights thereunder and without the consent, approval or act of, or the making of any filing with, any other party. Parent or MedSurg, as the case may be, has fulfilled and performed its obligations under each of the Parent Agreements to which it is a party, and neither Parent nor MedSurg is in, or alleged to be in, breach or default under, nor is there or is there alleged to be any basis for termination of, any of the Parent Agreements to which it is a

party and, to the knowledge of Parent and MedSurg no other party to any of the Parent Agreements has breached or defaulted thereunder, and no event has occurred and no condition or state of facts exists which, with the passage of time or the giving of notice or both, would constitute such a default or breach by Parent, MedSurg or by any such other party. Neither Parent nor MedSurg is currently renegotiating any of the Parent Agreements or paying liquidated damages in lieu of performance thereunder. Complete and correct copies of each of the Parent Agreements as currently in effect, including all pricing terms, have heretofore been delivered to Buyer by Parent.

5.22. No Violation, Litigation or Regulatory Action. Except as set forth in Schedule 5.22:

(i) the Purchased Assets and their uses comply with all applicable Requirements of Laws and Court Orders;

(ii) each of Parent and MedSurg has complied with all Requirements of Laws and Court Orders which are applicable to the Purchased Assets or the Business;

(iii) there are no criminal, civil, administrative or regulatory lawsuits, claims, suits, proceedings or investigations pending or, to the best knowledge of either Parent or MedSurg, threatened against or affecting either Parent or MedSurg in respect of the Purchased Assets or the Business nor, to the best knowledge of either Parent or MedSurg, is there any basis for any of the same, and there are no lawsuits, suits or proceedings pending in which either Parent or MedSurg is the plaintiff or claimant and which relate to the Purchased Assets or the Business; and

(iv) there is no criminal, civil, administrative or regulatory action, suit or proceeding pending or, to the best knowledge of Parent, threatened which questions the legality or propriety of the transactions contemplated by this Agreement.

5.23. Environmental Matters. Except as set forth in Schedule 5.23:

(i) the operations of the Business comply and have complied with all applicable Environmental Laws;

(ii) Parent and MedSurg have in respect of the Business, obtained all environmental, health and safety Governmental Permits necessary for its operation, and all such Governmental Permits are in full force and effect and Parent is in compliance with all terms and conditions of such permits;

(iii) neither Parent nor MedSurg with respect to the Business, nor any of the present Facilities or operations, or the past Facilities or operations, is subject to any on-going investigation by, order from or agreement with any Person (including without limitation any prior owner or operator of the Facilities) respecting (i) any Environmental Law, (ii) any Remedial Action or (iii) any claim of Losses and Expenses arising from the Release or threatened Release of Hazardous Materials into the environment;

(iv) Neither Parent nor MedSurg has been, with respect to the Business, subject to any judicial or administrative proceeding, order, judgment, decree or settlement alleging or addressing a violation of or liability under any Environmental Law;

(v) Neither Parent nor MedSurg has with respect to the Business:

(a) reported a Release of a hazardous substance

pursuant to Section 103(a) of CERCLA, or any state equivalent;

(b) filed a notice pursuant to Section 103(c) of CERCLA;

(c) filed notice pursuant to Section 3010 of RCRA, indicating the generation of any hazardous waste, as that term is defined under 40 CFR Part 261 or any state equivalent; or

(d) filed any notice under any applicable Environmental Law reporting a substantial violation of any applicable Environmental Law;

(vi) there is not now, nor to the best knowledge of Parent has there ever been, on or in the Facilities:

(a) any treatment, recycling, storage or disposal of any hazardous waste, as that term is defined under 40 CFR Part 261 or any state equivalent, that requires or required a Governmental Permit pursuant to Section 3005 of RCRA;

(b) any underground storage tank or surface impoundment or landfill or waste pile; or

(c) any storage on-site or Release of any Hazardous Materials in quantities sufficient to trigger reporting obligations under federal Emergency Planning Community Right-to-Know or any state equivalent.

(vii) there is not now on or in any of the Facilities any polychlorinated biphenyls (PCB) used in pigments, hydraulic oils, electrical transformers or other equipment;

(viii) Neither Parent nor MedSurg has received any notice or claim under CERCLA or any comparable state law to the effect that it is or may be liable to any Person as a result of the Release or threatened Release of Hazardous Materials and there are no facts or conditions relating to the operation of the Business that could reasonably be expected to give rise to any such notice or claim;

(ix) no Environmental Encumbrance has attached to any of the Facilities;

(x) any asbestos-containing material which is on or part of any of the Facilities is in good repair according to the current standards and practices governing such material, and its presence or

condition does not violate any currently applicable Environmental Law; and

(xi) none of the products Parent or MedSurg manufactures, distributes or sells in connection with the Business, now or in the past, contains asbestos or asbestos-containing material.

5.24. Insurance. Schedule 5.24 sets forth a list and brief description (including nature of coverage, limits and deductibles with respect to each type of coverage) of all policies of insurance maintained, owned or held by either Parent or MedSurg on the date hereof with respect to the Purchased Assets or the Business (excluding any of the Excluded Assets). Parent shall keep or cause such insurance or comparable insurance to be kept in full force and effect through the Closing Date. Each of Parent and MedSurg has complied with each of such insurance policies, as the case may be, and has not failed to give any notice or present any claim thereunder in a due and timely manner. Each of Parent and MedSurg has made available to Buyer correct and complete copies of the most recent inspection reports, if any, received from insurance underwriters as to the condition of the Purchased Assets.

5.25. Customers and Suppliers. Set forth in Schedule 5.25 hereto is (i) a list of names and addresses of the ten largest customers and the ten largest suppliers (measured by dollar volume of purchases or sales in each case) of the Business and the percentage of the Business which each such customer or supplier represents or represented during each of the years ended December 31, 1997 and 1998 and the period January 1, 1999 through March 31, 1999; and (ii) copies of the forms of purchase order for Inventory and sales Contracts for finished goods used in respect of the Business. Except as set forth in Schedule 5.25, there exists no actual or, to the knowledge of Parent and MedSurg, threatened termination, cancellation or limitation of, or any modification or change in, the business relationship with any customer or group of customers listed in Schedule 5.25, or whose purchases individually or in the aggregate are material to the operations of the Business, or with any supplier or group of suppliers listed in Schedule 5.25, or whose sales individually or in the aggregate are material to the operations of the Business, and there exists no present or future condition or state of facts or circumstances involving customers, suppliers or sales representatives which Parent can now reasonably foresee would materially adversely affect the Business or prevent the conduct of the Business after the consummation of the transactions contemplated by this Agreement in essentially the same manner in which it has heretofore been conducted.

5.26. [INTENTIONALLY BLANK]

5.27. Warranties and Product Liabilities. (a) Each product manufactured, sold, leased or delivered by the Business has been in conformity with all applicable contractual commitments and all express and implied warranties, and the Business has no liability (and there is no basis for any

present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim or demand against any of them giving rise to any liability) for replacement or repair thereof or other damages in connection therewith, subject only to the reserve for product warranty claims set forth on the face of the Balance Sheet rather than in any notes thereto) as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of the Business. No product manufactured, sold, leased, or delivered by the Business is subject to any guaranty, warranty, or other indemnity beyond the applicable standard terms and conditions of sale or lease. Schedule 5.27 includes copies of the standard terms and conditions of sale or lease for the Business (containing applicable guaranty, warranty and indemnity provisions) and a summary of the warranty expense incurred by the Business during each of the last three fiscal years.

(b) The Business has no liability (and there is no basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim or demand against any of them giving rise to any liability) arising out of any injury to individuals or property as a result of the ownership, possession or use of any product manufactured, sold, leased or delivered by the Business.

5.28. No Finder. Neither Parent nor MedSurg, nor any Person acting on their behalf, has paid or become obligated to pay any fee or commission to any broker, finder or intermediary for or on account of the transactions contemplated by this Agreement.

5.29. No Third Party Options. There are no existing agreements, options, commitments or rights with, of or to any person to acquire, directly or indirectly, the Business or any of the Purchased Assets or any interest therein, except for those Contracts for the sale of Inventory entered into in the normal course of business consistent with past practice.

5.30. Disclosure. None of the representations or warranties contained in this Article V and none of the information contained in the Schedules referred to in Article V, is false or misleading in any material respect or omits to state a fact herein or therein necessary to make the statements herein or therein not misleading in any material respect.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF BUYER

As an inducement to Parent and MedSurg to enter into this Agreement and to consummate the transactions contemplated hereby, Buyer hereby represents and warrants to Parent and MedSurg and agrees as follows:

6.1. Organization of Buyer. Buyer is a corporation duly organized,

validly existing and in good standing under the laws of the State of Delaware. Buyer is duly qualified to transact business as a foreign corporation and is in good standing in each of the jurisdictions in which the ownership or leasing of its properties or the conduct of its business requires such qualification. No other jurisdiction has demanded, requested or otherwise indicated that Buyer is required to so qualify. Buyer has full corporate power and authority to own or lease and to operate and use its properties and assets and to carry on its business as now conducted.

True and complete copies of the certificate of incorporation and all amendments thereto and of the By-laws, as amended to date, of Buyer have been delivered to Parent.

6.2. Authority of Buyer. Buyer has full power and authority to execute, deliver and perform this Agreement and all of the Buyer Ancillary Agreements. The execution, delivery and performance of this Agreement and the Buyer Ancillary Agreements by Buyer have been duly authorized and approved by Buyer's Board of Directors and do not require any further authorization or consent of Buyer or its stockholder. This Agreement has been duly authorized, executed and delivered by Buyer and is the legal, valid and binding agreement of Buyer enforceable in accordance with its terms, and each of the Buyer Ancillary Agreements has been duly authorized by Buyer and upon execution and delivery by Buyer will be a legal, valid and binding obligation of Buyer enforceable in accordance with its terms.

Neither the execution and delivery of this Agreement or any of the Buyer Ancillary Agreements or the consummation of any of the transactions contemplated hereby or thereby nor compliance with or fulfillment of the terms, conditions and provisions hereof or thereof will:

(i) conflict with, result in a breach of the terms, conditions or provisions of, or constitute a default, an event of default or an event creating rights of acceleration, termination or cancellation or a loss of rights under (1) the Certificate of Incorporation or By-laws of Buyer, (2) any material note, instrument, agreement, mortgage, lease, license, franchise, permit or other authorization, right, restriction or obligation to which Buyer is a party or any of its properties is subject or by which Buyer is bound, (3) any Court Order to which Buyer is a party or by which it is bound or (4) any Requirements of Laws affecting Buyer; or

(ii) require the approval, consent, authorization or act of, or the making by Buyer of any declaration, filing or registration with, any Person, except as provided under the HSR Act.

6.3. No Finder. Neither Buyer nor any Person acting on its behalf has paid or become obligated to pay any fee or commission to any broker, finder or intermediary for or on account of the transactions contemplated by this

Agreement.

ARTICLE VII

ACTION PRIOR TO THE CLOSING DATE

The respective parties hereto covenant and agree to take the following actions between the date hereof and the Closing Date:

7.1. Investigation of the Business by Buyer. Parent shall afford and cause the Business to afford to the officers, employees and authorized representatives of Buyer (including, without limitation, independent public accountants and attorneys) complete access during normal business hours to the offices, properties, employees and business and financial records (including computer files, retrieval programs and similar documentation and such access and information that may be necessary in connection with an environmental audit) of the Business to the extent Buyer shall deem necessary or desirable and shall furnish to Buyer or its authorized representatives such additional information concerning the Purchased Assets, the Business and the operations of the Business as shall be reasonably requested, including all such information as shall be necessary to enable Buyer or its representatives to verify the accuracy of the representations and warranties contained in this Agreement, to verify that the covenants of Parent contained in this Agreement have been complied with and to determine whether the conditions set forth in Article IX have been satisfied. Buyer agrees that such investigation shall be conducted in such a manner as not to interfere unreasonably with the operations of, Parent, MedSurg or the Business. No investigation made by Buyer or its representatives hereunder shall affect the representations and warranties of Parent hereunder.

7.2. Preserve Accuracy of Representations and Warranties. Each of the parties hereto shall refrain from taking any action which would render any representation or warranty contained in Article V or VI of this Agreement inaccurate as of the Closing Date. Each party shall promptly notify the other of any action, suit or proceeding that shall be instituted or threatened against such party to restrain, prohibit or otherwise challenge the legality of any transaction contemplated by this Agreement. Parent shall promptly notify Buyer of any lawsuit, claim, proceeding or investigation that may be threatened, brought, asserted or commenced against Parent or MedSurg which would have been listed in Schedule 5.22 if such lawsuit, claim, proceeding or investigation had arisen prior to the date hereof.

7.3. Consents of Third Parties; Governmental Approvals. (a) Parent will act diligently and reasonably to secure, before the Closing Date, the consent, approval or waiver, in form and substance reasonably satisfactory to Buyer, from any party to any Parent Agreement required to be obtained to assign or transfer any such Agreements to Buyer or to otherwise satisfy the conditions set forth in Section 9.5; provided that neither Parent nor Buyer shall have any

obligation to offer or pay any consideration in order to obtain any such consents or approvals; and provided, further, that Parent shall not make any agreement or understanding affecting the Purchased Assets or the Business as a condition for obtaining any such consents or waivers except with the prior written consent of Buyer. During the period prior to the Closing Date, Buyer shall act diligently and reasonably to cooperate with Parent to obtain the consents, approvals and waivers contemplated by this Section 7.3(a).

(b) During the period prior to the Closing Date, Parent and Buyer shall act diligently and reasonably, and shall cooperate with each other, to secure any consents and approvals of any Governmental Authority required to be obtained by them in order to assign or transfer any Governmental Permits to Buyer, to permit the consummation of the transactions contemplated by this Agreement, or to otherwise satisfy the conditions set forth in Section 9.4; provided that Parent shall not make any agreement or understanding affecting the Purchased Assets or the Business as a condition for obtaining any such consents or approvals except with the prior written consent of Buyer.

7.4. Operations Prior to the Closing Date. (a) Parent shall, and shall cause MedSurg to, operate and carry on the Business only in the ordinary course and substantially as presently operated. Consistent with the foregoing, Parent shall, and shall cause MedSurg to, keep and maintain the Purchased Assets in good operating condition and repair and shall use its commercially reasonable efforts consistent with good business practice to maintain the business organization of the Business intact and to preserve the goodwill of the suppliers, contractors, licensors, employees, customers, distributors and others having business relations with the Business.

(b) Except as expressly contemplated by this Agreement or except with the express written approval of Buyer, Parent shall not, and shall cause MedSurg not to:

(i) [INTENTIONALLY BLANK]

(ii) make any capital expenditure in excess of $20,000 in the aggregate with respect to the Business or enter into any Contract or commitment therefor;

(iii) enter into any Contract which would have been required to be set forth in Schedule 5.20 if in effect on the date hereof or enter into any Contract which cannot be assigned to Buyer or a permitted assignee of Buyer under Section 13.5;

(iv) enter into any Contract for the purchase of real property to be used, or held for use in, or otherwise relating to the Business or exercise any option to extend a lease listed in Schedule 5.11;

(v) sell, lease (as lessor), transfer or otherwise dispose of (including any transfers from the Business to Parent or any of its Affiliates), or mortgage or pledge, or impose or suffer to be imposed any Encumbrance on, any of the Purchased Assets, other than Inventory and minor amounts of personal property sold or otherwise disposed of for fair value in the ordinary course of the Business consistent with past practice and other than Permitted Encumbrances;

(vi) cancel any debts owed to or claims held by the Business (including the settlement of any claims or litigation) other than in the ordinary course of the Business consistent with past practice;

(vii) create, incur or assume, or agree to create, incur or assume, any indebtedness for borrowed money in respect of the Business (other than money borrowed or advances from Parent or any of its Affiliates in the ordinary course of the Business consistent with past practice) or enter into, as lessee, any capitalized lease obligations (as defined in Statement of Financial Accounting Standards No. 13) except as set forth in item 2 of Schedule 5.5(B);

(viii) accelerate or delay collection of any notes or accounts receivable generated by the Business in advance of or beyond their regular due dates or the dates when the same would have been collected in the ordinary course of the Business consistent with past practice;

(ix) delay or accelerate payment of any account payable or other liability of the Business beyond or in advance of its due date or the date when such liability would have been paid in the ordinary course of the Business consistent with past practice;

(x) allow the levels of Inventory of the Business to vary in any material respect from the levels customarily maintained in the Business;

(xi) make, or agree to make, any payment of cash or distribution of assets to Parent or any of its Affiliates (other than cash realized upon collection of receivables generated in the ordinary course of the Business);

(xii) institute any increase in any profit-sharing, bonus, incentive, deferred compensation, insurance, pension, retirement, medical, hospital, disability, welfare or other employee benefit plan with respect to employees of the Business;

(xiii) make any change in compensation of the employees of the Business, other than changes made in accordance with normal

compensation practices and consistent with past compensation practices;

(xiv) make any material change in the accounting policies applied in the preparation of the financial statements contained in Schedule 5.4; and

(xv) enter into any agreement or commitment to take any action prohibited by this Section 7.4.

7.5. Notification by Parent of Certain Matters. During the period prior to the Closing Date, Parent will promptly advise Buyer in writing of (i) any material adverse change in the condition of the Purchased Assets or the Business, (ii) any notice or other communication from any third Person alleging that the consent of such third Person is or may be required in connection with the transactions contemplated by this Agreement, and (iii) any material default under any Parent Agreement or event which, with notice or lapse of time or both, would become such a default on or prior to the Closing Date and of which Parent has knowledge.

7.6. Antitrust Law Compliance. As promptly as practicable after the date hereof, Buyer and Parent shall file with the Federal Trade Commission and the Antitrust Division of the Department of Justice the notifications and other information required to be filed under the HSR Act, or any rules and regulations promulgated thereunder, with respect to the transactions contemplated hereby. Each party warrants that all such filings by it will be, as of the date filed, true and accurate and in accordance with the requirements of the HSR Act and any such rules and regulations. Each of Buyer and Parent agrees to make available to the other such information as each of them may reasonably request relative to its business, assets and property (including, in the case of Parent, the Business) as may be required of each of them to file any additional information requested by such agencies under the HSR Act and any such rules and regulations.

7.7. Insurance. Until the Closing, Parent shall maintain or cause to be maintained in force (including necessary renewals thereof) insurance policies against risk and liabilities to the extent and in the matter heretofore maintained by Parent with respect to the Business and the Purchased Assets.

7.8. [INTENTIONALLY BLANK]

ARTICLE VIII

ADDITIONAL AGREEMENTS

8.1. Covenant Not to Compete or Solicit Business. (a) In furtherance

of the sale of the Purchased Assets and the Business to Buyer hereunder by virtue of the transactions contemplated hereby and more effectively to protect the value and goodwill of the Purchased Assets and the Business so sold, Parent covenants and agrees that, for a period ending on the third anniversary of the Closing Date, neither Parent nor any of its Affiliates will directly or indirectly (whether as principal, agent, independent contractor, partner or otherwise) own, manage, operate, control, participate in (other than as a supplier of components), or otherwise carry on, a business engaged in assembling, packaging, marketing or selling procedure kits or trays anywhere in or outside of the United States (it being understood by the parties hereto that the prohibited activities are not limited to any particular region because such business has been conducted by Parent throughout and outside the United States and the prohibited activities may be engaged in effectively from any location in or outside of the United States): provided, however, that nothing set forth in this Section 8.1 shall prohibit Parent or its Affiliates from owning not in excess of 5% in the aggregate of any class of capital stock of any corporation if such stock is publicly traded and listed on any national or regional stock exchange or on the NASDAQ national market system.

(b) At all times prior to the Deferred Closing, Parent shall not, and shall cause MedSurg not to, transfer or cause to be transferred from MedSurg any of its current employees. Buyer agrees to deliver to Parent no later than 75 days prior to the Deferred Closing a list of any employees of MedSurg to whom Buyer proposes to offer employment upon termination of the Contract Manufacturing Agreement (the "Designated Employees"). Parent agrees to cooperate with Buyer and to use its reasonable efforts to persuade the Designated Employees to accept positions with Buyer or one of its Affiliates. Parent covenants that neither Parent nor any of its Affiliates will for a period ending on the third anniversary of the Closing Date, induce or attempt to persuade any Designated Employee (except any individual who has not accepted a position with Buyer or one of its Affiliates within 90 days after the Deferred Closing Date) or any employee, agent, or customer of the Business to terminate such employment, agency or business relationship in order to enter into any such relationship on behalf of any other business relationship with Parent or any of its Affiliates or in competition with the Business.

(c) In addition, Parent covenants and agrees that neither it nor any of its Affiliates will divulge or make use of any trade secrets or other confidential information of the Business other than to disclose such secrets and information to Buyer or its Affiliates.

(d) In the event Parent or any Affiliate of Parent violates any of its obligations under this Section 8.1, Buyer may proceed against it in law or in equity for such damages or other relief as a court may deem appropriate. Parent acknowledges that a violation of this Section 8.1 may cause Buyer irreparable harm which may not be adequately compensated for by money damages. Parent therefore agrees that in the event of any actual or threatened violation of this Section 8.1, Buyer shall be entitled, in addition to other remedies that it may have, to a temporary restraining order and to preliminary and final injunctive relief against Parent or such Affiliate of Parent to prevent any violations of this Section 8.1, without the necessity of posting a bond. The prevailing party

in any action commenced under this Section 8.1 shall also be entitled to receive reasonable attorneys' fees and court costs. It is the intent and understanding of each party hereto that if, in any action before any court or agency legally empowered to enforce this Section 8.1, any term, restriction, covenant or promise in this Section 8.1 is found to be unreasonable and for that reason unenforceable, then such term, restriction, covenant or promise shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

8.2. Use of Names. For a period of 6 months after the Deferred Closing Date, Buyer and its Affiliates shall have the royalty-free right to refer to the Business as "formerly an Affiliate of Isolyser Company, Inc." and to use such reference in advertising or in the description or name of any service or product from time to time purchased, processed, manufactured or sold by Buyer and its Affiliates in continuation of the Business. Buyer and its Affiliates shall have the further royalty-free right from and after the Closing Date to sell or otherwise use or dispose of any Inventory which bears the name "Isolyser Company, Inc." or "MedSurg Industries, Inc." alone or in combination with other words if such materials (i) were included in the Purchased Assets, (ii) are returned to Buyer or its Affiliates after the Closing Date, or (iii) were contracted for by Parent prior to the Closing Date; provided that such right shall terminate 12 months after the Closing Date with respect to any such materials unless the only reference therein to Parent is to its copyright claim, in which case such right shall be unlimited as to time. Buyer and its Affiliates shall also have the royalty-free right from and after the Closing Date to use, for a period of 12 months following the Closing Date, any signs, letterhead, invoices or other supplies which bear the name "Isolyser Company, Inc." or "MedSurg Industries, Inc." alone or in combination with other words if such signs or supplies (i) were included in the Purchased Assets, or (ii) were contracted for by Parent prior to the Closing Date.

8.3. Taxes. (a) Except to the extent reflected as a liability on the Valuation Date Balance Sheet and taken into account as a deduction in Net Assets in connection with the determination of the Purchase Price, Parent shall be liable for and shall pay or cause to be paid all Taxes (whether assessed or unassessed) applicable to the Business and the Purchased Assets, in each case attributable to periods (or portions thereof) ending on or prior to the Closing Date. Buyer shall be liable for and shall pay (i) all Taxes reflected as a liability on the Valuation Date Balance Sheet and taken into account as a deduction in Net Assets in connection with the determination of the Purchase Price and (ii) all Taxes (whether assessed or unassessed) applicable to the Business, the Purchased Assets, in each case attributable to periods (or portions thereof) beginning after the Closing Date. For purposes of this paragraph (a), any period beginning before and ending after the Closing Date shall be treated as two partial periods, one ending on the Closing Date and the other beginning after the Closing Date except that Taxes (such as property Taxes) imposed on a periodic basis shall be allocated on a daily basis.

(b) Notwithstanding Section 8.3(a), any sales Tax, use Tax, real property transfer or gains Tax, documentary stamp Tax or similar Tax attributable to the sale or transfer of the Purchased Assets shall be paid by Parent, provided that the foregoing shall not include fees payable by Buyer pursuant to the HSR Act. Buyer agrees to timely sign and deliver such certificates or forms as may be necessary or appropriate to establish an exemption from (or otherwise reduce), or make a report with respect to, such Taxes.

(c) Parent or Buyer, as the case may be, shall provide reimbursement for any Tax paid by one party all or a portion of which is the responsibility of the other party in accordance with the terms of this Section 8.3. Within a reasonable time prior to the payment of any said Tax, the party paying such Tax shall give notice to the other party of the Tax payable and the portion which is the liability of each party, although failure to do so will not relieve the other party from its liability hereunder.

(d) Any payments made pursuant to this Section 8.3 shall be treated by Buyer and Parent as an adjustment to the Purchase Price.

8.4. Discharge of Business' Liabilities. Parent covenants and agrees that it will pay and discharge, and hold Buyer harmless from, each and every liability and obligation of Parent in respect of the Business or the Purchased Assets arising from events occurring on or prior to the Closing Date, excepting only those liabilities and obligations expressly assumed by Buyer at the Closing pursuant to instruments of assumption delivered to Parent at the Closing, or the Deferred Closing, as the case may be, it being understood and agreed that Buyer is assuming no liabilities or obligations of Parent other than liabilities and obligations so expressly assumed by Buyer.

8.5. Employees and Employee Benefit Plans. (a) No person who is an employee of Parent or any of its Affiliates (an "Employee") shall transfer employment to Buyer or any of its Affiliates in connection with Buyer's purchase of the assets pursuant to this Agreement. Parent shall retain the sole responsibility for all matters relating to the maintenance of personnel and payroll records, the withholding and payment of federal, state and local income and payroll taxes, the payment of workers' compensation and unemployment compensation insurance, salaries, wages and pension, welfare and other fringe benefits, including any severance which may be triggered as a result of any termination employment and the conduct of all other matters relating to labor relations, including compliance with Parent's obligations under any applicable collective bargaining agreements and all negotiations and communications with any union relating to employment of the Employees by Parent. Parent shall retain liability for compliance with all applicable labor and employment laws relating to the Employees and shall indemnify Buyer (and its successors, assigns, officers, directors and employees) for any liability or legal or other expenses that result from any legal action alleging noncompliance with such laws.

(b) Parent shall cause MedSurg to retain all liabilities under its employee benefits plans, programs, agreements and arrangements, including (i) any liabilities relating to any noncompliance with applicable laws, including the Employee Retirement Income Security Act, the Internal Revenue Code and the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), and (ii) any liabilities which arise as a result of Parent's joint and several liability through its relationship with an Affiliate. Parent shall be solely responsible to provide continuation coverage under COBRA and other any applicable state law to any Employee or beneficiary of any Employee who is entitled to such continuation coverage. Parent shall indemnify Buyer (and its successors, assigns, officers, directors, employees and employee benefits plans) for any liability resulting from Parent's failure to provide such continuation coverage and for any other liability described in the first sentence of this paragraph.

(c) Parent shall have the responsibility of giving the Employees any notice (a "Warn Notice") required under the WARN Act. Parent shall comply with all applicable requirements of the WARN Act and shall indemnify Buyer (and its successors, assigns, officers, directors and employees) for any liability or legal or other expenses resulting from any legal action alleging noncompliance with such act.

8.6. [INTENTIONALLY BLANK]

8.7. Ancillary Agreements. At the Closing, Buyer Parent and MedSurg shall execute and deliver the following agreements (the "Ancillary Agreements"):

(i) a Supply & License Agreement substantially in the form attached as Exhibit C hereto; and

(ii) a Contract Manufacturing Agreement substantially in the form attached as Exhibit D hereto with such other terms, including Exhibit C thereto regarding Manufacturing Costs, as are mutually acceptable to Buyer and Parent.

8.8. Handling of Returned Products. Notwithstanding Section 2.4(l) of this Agreement, the parties hereto agree that Buyer shall administer and manage all matters related to the warranty and service on any products manufactured, distributed or sold by the Business on or prior to the Closing Date. In addition, notwithstanding Sections 2.4(k) and (l) of this Agreement, Buyer agrees to replace a de minimis amount of any products manufactured, distributed or sold by the Business on or prior to the Closing Date which are returned for replacement by a customer after the Closing Date pursuant to any warranty obligation of the Business.

ARTICLE IX

CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER

The obligations of Buyer under this Agreement shall, at the option of Buyer, be subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

9.1. No Misrepresentation or Breach of Covenants and Warranties. There shall have been no material breach by Parent in the performance of any of its covenants and agreements herein; each of the representations and warranties of Parent contained or referred to herein shall be true and correct in all material respects on the Closing Date as though made on the Closing Date, except for changes therein specifically permitted by this Agreement or resulting from any transaction expressly consented to in writing by Buyer or any transaction permitted by Section 7.4; and there shall have been delivered to Buyer a certificate to such effect, dated the Closing Date, signed on behalf of Parent by the President or any Vice President of Parent.

9.2. No Changes or Destruction of Property. Between the date hereof and the Closing Date, there shall have been (a) no material adverse change in the Purchased Assets, the Business or the operations, liabilities, profits, prospects or condition (financial or otherwise) of the Business; (b) no material adverse federal or state legislative or regulatory change affecting the Business or its products or services; and (c) no material damage to the Purchased Assets by fire, flood, casualty, act of God or the public enemy or other cause, regardless of insurance coverage for such damage; and there shall have been delivered to Buyer a certificate to such effect, dated the Closing Date and signed on behalf of Parent by the President or any Vice President of Parent.

9.3. No Restraint or Litigation. The waiting period under the HSR Act shall have expired or been terminated, and no action, suit, investigation or proceeding shall have been instituted or threatened to restrain or prohibit or otherwise challenge the legality or validity of the transactions contemplated hereby.

9.4. Necessary Governmental Approvals. The parties shall have received all approvals and actions of or by all Governmental Bodies which are necessary to consummate the transactions contemplated hereby, which are either specified in Schedule 5.3 or otherwise required to be obtained prior to the Closing by applicable Requirements of Laws or which are necessary to prevent a material adverse change in the Purchased Assets, the Business or the operations, liabilities, profits, prospects or condition (financial or otherwise) of the Business.

9.5. Necessary Consents. Parent shall have received consents, in form and substance reasonably satisfactory to Buyer, to the transactions contemplated hereby from the other parties to all Contracts, leases, and permits to which

Parent is a party or by which Parent or any of the Purchased Assets is affected and which are specified in Schedule 9.5.

9.6. Maintenance of Accounts. The revenues of the Business for the period commencing January 1, 1999 and ending immediately prior to the Closing Date shall have been equal to or in excess of an annual rate of $55 million based upon 256 billing days in a year and the number of billing days in the period from January 1, 1999 to the Closing Date.

9.7. Key Employees. Parent shall have used reasonable efforts to arrange for the individuals listed in Schedule 9.7 to agree to become employees of Buyer as of the Closing Date and to enter into employment agreements with Buyer on terms satisfactory to Buyer. Buyer acknowledges that Parent has no obligation to ensure that such individuals agree to become employees of Buyer.

9.8. [INTENTIONALLY BLANK]

9.9. Instrument of Assignment and Ancillary Agreements. Parent shall have executed and delivered to Buyer all of the necessary deeds and assignments, including the Instrument of Assignment, necessary to sell, transfer, assign, convey and deliver to Buyer the Purchased Assets and the Ancillary Agreements. Parent shall have provided to Buyer such other items acceptable in form and substance to Buyer and its counsel which Buyer may reasonably request to consummate the transactions contemplated by this Agreement.

ARTICLE X

CONDITIONS PRECEDENT TO OBLIGATIONS OF PARENT AND MEDSURG

The obligations of Parent and MedSurg under this agreement shall, at the option of Parent and MedSurg, be subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

10.1. No Misrepresentation or Breach of Covenants and Warranties. There shall have been no material breach by Buyer in the performance of any of its covenants and agreements herein; each of the representations and warranties of Buyer contained or referred to in this Agreement shall be true and correct in all material respects on the Closing Date as though made on the Closing Date, except for changes therein specifically permitted by this Agreement or resulting from any transaction expressly consented to in writing by Parent or any transaction contemplated by this Agreement; and there shall have been delivered to Parent a certificate to such effect, dated the Closing Date and signed on behalf of Buyer by the President or any Vice President of Buyer.

10.2. No Restraint or Litigation. The waiting period under the HSR Act shall have expired or been terminated, and no action, suit or proceeding by any Governmental Authority shall have been instituted or threatened to restrain,

prohibit or otherwise challenge the legality or validity of the transactions contemplated hereby.

10.3. Necessary Governmental Approvals. The parties shall have received all approvals and actions of or by all Governmental Bodies necessary to consummate the transactions contemplated hereby, which are required to be obtained prior to the Closing by applicable Requirements of Laws.

10.4. Purchase Price, Instrument of Assumption and Ancillary Agreements. Buyer shall have delivered to Parent the amount contemplated by Section 3.1 and shall have executed and delivered to Parent the Instrument of Assumption and the Ancillary Agreements.

ARTICLE XI

INDEMNIFICATION

11.1. Indemnification by Parent. (a) Parent agrees to indemnify and hold harmless each Buyer Group Member from and against any and all Losses and Expenses incurred by such Buyer Group Member in connection with or arising from:

(i) any breach or alleged breach by either Parent or MedSurg of any of its covenants in this Agreement;

(ii) any failure of either Parent or MedSurg to perform any of its obligations in this Agreement;

(iii) any breach or alleged breach of any warranty or the inaccuracy of any representation of Parent contained or referred to in this Agreement or any certificate delivered by or on behalf of Parent pursuant hereto;

(iv) the failure of Parent to comply with any applicable bulk sales law, except that this clause shall not affect the obligation of Buyer to pay and discharge the Assumed Liabilities; or

(v) the failure of Parent to perform or cause to be performed any Excluded Liability.

(b) The indemnification provided for in Section 11.1(a)(iii) shall terminate five years after the Closing Date (and no claims for indemnification hereunder shall be made by any Buyer Group Member under Section 11.1(a)(iii) thereafter), except that the indemnification by Parent shall continue as to:

(i) any Losses or Expenses of which any Buyer Group Member has notified Parent in accordance with the requirements of Section 11.3 on or prior to the date such indemnification would otherwise

terminate in accordance with this Section 11.1, as to which the obligation of Parent shall continue until the liability of Parent shall have been determined pursuant to this Article XI, and Parent shall have reimbursed all Buyer Group Members for the full amount of such Losses and Expenses in accordance with this Article XI;

(ii) the representations and warranties contained in Section 5.7, Section 5.18 and Section 5.23, which shall survive until 90 days after the expiration of all applicable statutes of limitation; and

(iii) the representations and warranties contained in Section 5.17, which shall survive indefinitely.

11.2. Indemnification by Buyer. (a) Buyer agrees to indemnify and hold harmless each Parent Group Member from and against any and all Losses and Expenses incurred by such Parent Group Member in connection with or arising from:

(i) any breach or alleged breach by Buyer of any of its covenants or agreements in this Agreement;

(ii) any failure by Buyer to perform any of its obligations in this Agreement;

(iii) any breach or alleged breach of any warranty or the inaccuracy of any representation of Buyer contained or referred to in this Agreement or in any certificate delivered by or on behalf of Buyer pursuant hereto; or

(iv) any failure of Buyer to perform or cause to be performed any Assumed Liability.

(b) The indemnification provided for in Section 11.2(a)(iii) shall terminate five years after the Closing Date (and no claims for indemnification hereunder shall be made by and Parent Group Member under Section 11.2(a)(iii) thereafter), except that the indemnification by Buyer shall continue as to any Losses or Expenses of which any Parent Group Member has notified Buyer in accordance with the requirements of Section 11.3 on or prior to the date such indemnification would otherwise terminate in accordance with this Section 11.2, as to which the obligation of Buyer shall continue until the liability of Buyer shall have been determined pursuant to this Article XI, and Buyer shall have reimbursed all Parent Group Members for the full amount of such Losses and Expenses in accordance with this Article XI.

11.3. Notice of Claims. (a) Any Buyer Group Member or Parent Group Member (the "Indemnified Party") seeking indemnification hereunder shall give to the party obligated to provide indemnification to such Indemnified Party (the "Indemnitor") a notice (a "Claim Notice") describing in reasonable detail the

facts giving rise to any claim for indemnification hereunder and shall include in such Claim Notice (if then known) the amount or the method of computation of the amount of such claim, and a reference to the provision of this Agreement or any other agreement, document or instrument executed hereunder or in connection herewith upon which such claim is based; provided, that a Claim Notice in respect of any action at law or suit in equity by or against a third Person as to which indemnification will be sought shall be given promptly after the action or suit is commenced; provided further that failure to give such notice shall not relieve the Indemnitor of its obligations hereunder except to the extent it shall have been prejudiced by such failure.

(b) After the giving of any Claim Notice pursuant hereto, the amount of indemnification to which an Indemnified Party shall be entitled under this Article XI shall be determined: (i) by the written agreement between the Indemnified Party and the Indemnitor; (ii) by a final judgment or decree of any court of competent jurisdiction; or (iii) by any other means to which the Indemnified Party and the Indemnitor shall agree. The judgment or decree of a court shall be deemed final when the time for appeal, if any, shall have expired and no appeal shall have been taken or when all appeals taken shall have been finally determined. The Indemnified Party shall have the burden of proof in establishing the amount of Loss and Expense suffered by it.

11.4. Third Person Claims. (a) Subject to Section 11.4(b), the Indemnified Party shall have the right to conduct and control, through counsel of its choosing, the defense, compromise or settlement of any third Person claim, action or suit against such Indemnified Party as to which indemnification will be sought by any Indemnified Party from any Indemnitor hereunder, and in any such case the Indemnitor shall cooperate in connection therewith and shall furnish such records, information and testimony and attend such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested by the Indemnified Party in connection therewith; provided, that the Indemnitor may participate, through counsel chosen by it and at its own expense, in the defense of any such claim, action or suit as to which the Indemnified Party has so elected to conduct and control the defense thereof; and provided, further, that the Indemnified Party shall not, without the written consent of the Indemnitor (which written consent shall not be unreasonably withheld), pay, compromise or settle any such claim, action or suit. Notwithstanding the foregoing, the Indemnified Party shall have the right to pay, settle or compromise any such claim, action or suit without such consent, provided that in such event the Indemnified Party shall waive any right to indemnity therefor hereunder unless such consent is unreasonably withheld.

(b) If any third Person claim, action or suit against any Indemnified Party is solely for money damages or, where Parent is the Indemnitor, will have no continuing effect in any material respect on the Business or the Purchased Assets, then the Indemnitor shall have the right to conduct and control, through counsel of its choosing, the defense, compromise or settlement of any such third Person claim, action or suit against such Indemnified Party as to which

indemnification will be sought by any Indemnified Party from any Indemnitor hereunder if the Indemnitor has acknowledged and agreed in writing that, if the same is adversely determined, the Indemnitor has an obligation to provide indemnification to the Indemnified Party in respect thereof, and in any such case the Indemnified Party shall cooperate in connection therewith and shall furnish such records, information and testimony and attend such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested by the Indemnitor in connection therewith; provided, that the Indemnified Party may participate, through counsel chosen by it and at its own expense, in the defense of any such claim, action or suit as to which the Indemnitor has so elected to conduct and control the defense thereof. Notwithstanding the foregoing, the Indemnified Party shall have the right to pay, settle or compromise any such claim, action or suit, provided that in such event the Indemnified Party shall waive any right to indemnity therefor hereunder unless the Indemnified Party shall have sought the consent of the Indemnitor to such payment, settlement or compromise and such consent was unreasonably withheld, in which event no claim for indemnity therefor hereunder shall be waived.

11.5. Limitations. Notwithstanding anything contained herein to the contrary, Parent shall be required to indemnify and hold harmless under Section 11.1(a)(iii) with respect to Losses and Expenses incurred by Buyer Group Members only to the extent that (i) the amount of Loss and Expense suffered by Buyer Group Members related to any individual claim exceeds $5,000 and (ii) the aggregate amount of such Losses and Expenses exceeds $100,000.

ARTICLE XII

TERMINATION

12.1. Termination. Anything contained in this Agreement to the contrary notwithstanding, this Agreement may be terminated at any time prior to the Closing Date:

(a) by the mutual consent of Buyer and Parent;

(b) by Buyer or Parent if the Closing shall not have occurred on or before August 31, 1999 (or such late date as may be mutually agreed to by Buyer and Parent);

(c) by Buyer in the event of any material breach by Parent of any of Parent's agreements, representations or warranties contained herein and the failure of Parent to cure such breach within seven days after receipt of notice from Buyer requesting such breach to be cured; or

(d) by Parent in the event of any material breach by Buyer of any of Buyer's agreements, representations or warranties contained herein and the failure of Buyer to cure such breach within seven days after receipt of notice from Parent requesting such breach to be cured.

12.2. Notice of Termination. Any party desiring to terminate this Agreement pursuant to Section 12.1 shall give notice of such termination to the other party to this Agreement.

12.3. Effect of Termination. In the event that this Agreement shall be terminated pursuant to this Article XII, all further obligations of the parties under this Agreement (other than Sections 13.2 and 13.10) shall be terminated without further liability of any party to the other, provided that nothing herein shall relieve any party from liability for its willful breach of this Agreement.

ARTICLE XIII

GENERAL PROVISIONS

13.1. Survival of Obligations. All representations, warranties, covenants, indemnities and obligations contained in this Agreement shall survive the consummation of the transactions contemplated by this Agreement; provided that the representations and warranties contained hereon shall survive only through the period during which claims for indemnification may be made pursuant to Article XI.

13.2. Confidential Nature of Information. Each party agrees that it will treat in confidence all documents, materials and other information which it shall have obtained regarding the other party during the course of the negotiations leading to the consummation of the transactions contemplated hereby (whether obtained before or after the date of this Agreement), the investigation provided for herein and the preparation of this Agreement and other related documents, and, in the event the transactions contemplated hereby shall not be consummated, each party will return to the other party all copies of nonpublic documents and materials which have been furnished in connection therewith. Such documents, materials and information shall not be communicated to any third Person (other than, in the case of Buyer, to its counsel, accountants, financial advisors or lenders, and in the case of Parent, to its counsel, accountants or financial advisors). No other party shall use any confidential information in any manner whatsoever except solely for the purpose of evaluating the proposed purchase and sale of the Purchased Assets; provided, however, that after the Closing Buyer may use or disclose any confidential information included in the Purchased Assets or otherwise reasonably related to the Business or the Purchased Assets. The obligation of each party to treat such documents,

materials and other information in confidence shall not apply to any information which (i) is or becomes available to such party from a source other than such party, (ii) is or becomes available to the public other than as a result of disclosure by such party or its agents, (iii) is required to be disclosed under applicable law or judicial process, but only to the extent it must be disclosed, or (iv) such party reasonably deems necessary to disclose to obtain any of the consents or approvals contemplated hereby.

13.3. No Public Announcement. Neither Buyer nor Parent shall, without the approval of the other, make any press release or other public announcement concerning the transactions contemplated by this Agreement, except as and to the extent that any such party shall be so obligated by law or the rules of any stock exchange, in which case the other party shall be advised and the parties shall use their best efforts to cause a mutually agreeable release or announcement to be issued; provided that the foregoing shall not preclude communications or disclosures necessary to implement the provisions of this Agreement or to comply with the accounting and Securities and Exchange Commission disclosure obligations.

13.4. Notices. All notices or other communications required or permitted hereunder shall be in writing and shall be deemed given or delivered when delivered personally or when sent by registered or certified mail or by private courier addressed as follows:

If to Buyer, to:

Allegiance Healthcare Corporation
1430 Waukegan Road
MPKB 3A
McGaw Park, Illinois 60085-6787
Attention: General Counsel
Telecopy: (847) 578-4448

with a copy to:

Cardinal Health, Inc.
7000 Cardinal Place
Dublin, Ohio 43017
Attention: Robert D. Walter
Telecopy: 614-717-8919

and

Sidley & Austin
One First National Plaza
Chicago, Illinois 60603
Attention: John M. O'Hare, Esq.
Telecopy: (312) 853-7036

If to Parent, to:

Isolyser Company Inc.
4320 International Blvd.
Norcross, Georgia 30093
Attention: President
Telecopy: 770 - 806-8869

with a copy to:

Arnall, Golden & Gregory, LLP
2800 One Atlantic Center
1201 West Peachtree Street
Atlanta, Georgia 30309
Attention: Stephen D. Fox
Telecopy: 404-873-8501

or to such other address as such party may indicate by a notice delivered to the other party hereto.

13.5. Successors and Assigns. (a) The rights of either party under this Agreement shall not be assignable by such party hereto prior to the Closing without the written consent of the other, except that the rights of Buyer hereunder may be assigned prior to the Deferred Closing, without the consent of Parent, to Cardinal Health, Inc. or any subsidiary thereof; provided that (i) such assignment shall not result in Buyer or Parent having to amend its respective Notification and Report Form filed under the HSR Act in connection with the transactions contemplated hereunder, (ii) the assignee shall assume in writing all of Buyer's obligations to Parent hereunder, (iii) Buyer shall not be released from any of its obligations hereunder by reason of such assignment and (iv) Parent's obligations under this Agreement shall be subject to the delivery by such assignee, on or prior to the Deferred Closing of a certificate signed on its behalf containing representations and warranties similar to those made by Buyer in Article VI and an opinion of counsel reasonably acceptable to Parent with respect to the assignee which is similar to the opinion with respect to Buyer set forth in Exhibit F. Following the Deferred Closing, either party may assign any of its rights hereunder, but no such assignment shall relieve it of its obligations hereunder.

(b) This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns. The successors and permitted assigns hereunder shall include without limitation, in the case of Buyer, any permitted assignee as well as the successors in interest to such permitted assignee (whether by merger, liquidation (including successive mergers or liquidations) or otherwise). Nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon any Person other than the parties and successors and assigns permitted by this Section 13.5 any right,

remedy or claim under or by reason of this Agreement.

13.6. Access to Records after Closing. For a period of six years after the Closing Date, Parent and its representatives shall have reasonable access to all of the books and records of the Business transferred to Buyer hereunder to the extent that such access may reasonably be required by Parent in connection with matters relating to or affected by the operations of the Business prior to the Closing Date or in connection with Parent's 1999 audit. Such access shall be afforded by Buyer upon receipt of reasonable advance notice and during normal business hours. Parent shall be solely responsible for any costs or expenses incurred by it pursuant to this Section 13.6. If Buyer shall desire to dispose of any of such books and records prior to the expiration of such six-year period, Buyer shall, prior to such disposition, give Parent a reasonable opportunity, at Parent's expense, to segregate and remove such books and records as Parent may select.

For a period of six years after the Closing Date, Buyer and its representatives shall have reasonable access to all of the books and records relating to the Business which Parent or any of its Affiliates may retain after the Closing Date. Such access shall be afforded by Parent and its Affiliates upon receipt of reasonable advance notice and during normal business hours. Buyer shall be solely responsible for any costs and expenses incurred by it pursuant to this Section 13.6. If Parent or any of its Affiliates shall desire to dispose of any of such books and records prior to the expiration of such six-year period, Parent shall, prior to such disposition, give Buyer a reasonable opportunity, at Buyer's expense, to segregate and remove such books and records as Buyer may select.

13.7. Entire Agreement; Amendments; Schedules. This Agreement and the Exhibits and Schedules referred to herein and the documents delivered pursuant hereto contain the entire understanding of the parties hereto with regard to the subject matter contained herein or therein, and supersede all prior agreements, understandings or letters of intent between or among any of the parties hereto, except for paragraph 8 of the Confidentiality Agreement. This Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the parties hereto. The matters expressly disclosed in the Schedules provided by Parent pursuant to this Agreement shall be specifically limited to the corresponding representation and warranty to which such Schedule relates and no implication or inference shall be made in any other representation or warranty.

13.8. Interpretation. Article titles and headings to sections herein 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. The Schedules and Exhibits referred to herein shall be construed with and as an integral part of this Agreement to the same extent as if they were set forth verbatim herein.

13.9. Waivers. Any term or provision of this Agreement may be waived,

or the time for its performance may be extended, by the party or parties entitled to the benefit thereof. Any such waiver shall be validly and sufficiently authorized for the purposes of this Agreement if, as to any party, it is authorized in writing by an authorized representative of such party. The failure of any party hereto to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

13.10. Expenses. Each party hereto will pay all costs and expenses incident to its negotiation and preparation of this Agreement and to its performance and compliance with all agreements and conditions contained herein on its part to be performed or complied with, including the fees, expenses and disbursements of its counsel and accountants.

13.11. Partial Invalidity. Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such invalid, illegal or unenforceable provision or provisions or any other provisions hereof, unless such a construction would be unreasonable.

13.12. Execution in Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement, and shall become binding when one or more counterparts have been signed by each of the parties hereto and delivered to each of Parent and Buyer.

13.13. Further Assurances. On the Closing Date and on the Deferred Closing Parent shall (i) deliver to Buyer such other bills of sale, deeds, endorsements, assignments and other good and sufficient instruments of conveyance and transfer, in form reasonably satisfactory to Buyer and its counsel, as Buyer may reasonably request or as may be otherwise reasonably necessary to vest in Buyer all the right, title and interest of Parent and its Affiliates in, to or under any or all of the Purchased Assets, and (ii) take all steps as may be reasonably necessary to put Buyer in actual possession and control of all the Purchased Assets. From time to time following the Closing and the Deferred Closing Parent shall execute and deliver, or cause to be executed and delivered, to Buyer such other instruments of conveyance and transfer as Buyer may reasonably request or as may be otherwise necessary to more effectively convey and transfer to, and vest in, Buyer and put Buyer in possession of, any part of the Purchased Assets, and, in the case of licenses, certificates, approvals, authorizations, Contracts, leases, easements and other

commitments included in the Purchased Assets (a) which cannot be transferred or assigned effectively without the consent of third parties which consent has not been obtained prior to the Closing, to cooperate with Buyer at its request in endeavoring to obtain such consent promptly, and if any such consent is unobtainable, to use its best efforts to secure to Buyer the benefits thereof in some other manner, or (b) which are otherwise not transferable or assignable, to use its best efforts jointly with Buyer to secure to Buyer the benefits thereof in some other manner (including the exercise of the rights of Parent thereunder); provided, however, that nothing herein shall relieve Parent of its obligations under Section 7.3. Notwithstanding anything in this Agreement to the contrary, this Agreement shall not constitute an agreement to assign any license, certificate, approval, authorization, Contract, lease, easement or other commitment included in the Purchased Assets if an attempted assignment thereof without the consent of a third party thereto would constitute a breach thereof.

13.14. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (as opposed to the conflicts of law provisions) of the State of Illinois.

13.15. Submission to Jurisdiction. Parent and Buyer hereby irrevocably submit in any suit, action or proceeding arising out of or related to this Agreement or any of the transactions contemplated hereby or thereby to the jurisdiction of the United States District Court for the Northern District of Illinois and the jurisdiction of any court of the State of Illinois located in Chicago and waive any and all objections to jurisdiction that they may have under the laws of the State of Illinois or the United States.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

ALLEGIANCE HEALTHCARE CORPORATION

By _____
Name:
Title:

(Corporate Seal)

ATTEST:

_____

ISOLYSER COMPANY, INC.

By _____
Name:
Title:

(Corporate Seal)

ATTEST:

_____

MEDSURG INDUSTRIES, INC.

By _____
Name:
Title:

(Corporate Seal)

ATTEST:

_____

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FIRST AMENDMENT

TO

ASSET PURCHASE AGREEMENT

FIRST AMENDMENT dated as of July 12, 1999 (this "Amendment") to ASSET PURCHASE AGREEMENT dated as of May 25, 1999 (the "Agreement") among Allegiance Healthcare Corporation, a Delaware corporation ("Buyer"), Isolyser Company, Inc., a Georgia corporation ("Parent"), and MedSurg Industries, Inc., a Georgia corporation ("MedSurg").

W I T N E S S E T H:

WHEREAS, the parties have entered into the Agreement whereby Parent and MedSurg have agreed to sell, and Buyer has agreed to purchase, certain of the assets of the Business (capitalized terms not defined herein having the meanings ascribed to them in the Agreement); and

WHEREAS, the parties hereto desire to amend the Agreement as hereinafter described.

NOW, THEREFORE, in consideration of the premises and the covenants and other agreements set forth herein, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, each intending to be contractually bound, hereby agree as follows:

1. Amendment of Section 3.1 to the Agreement.

Section 3.1 shall to the Agreement is hereby amended and replaced with the following:

> " 3.1 Purchase Price. The purchase price for the Purchased Assets (the "Purchase Price") shall be equal to $31,300,000 (the "Preliminary Purchase Price"), as adjusted pursuant to Section 3.2 below. The Purchase Price shall be paid by Buyer in cash pursuant to Section 4.2 hereof."

2. Deletion of Section 3.5 to the Agreement.

Section 3.5 to the Agreement shall be deleted in its entirety including any definitions solely used and set forth in such section and listed in Article I.

Section 3.5 to the Agreement is hereby replaced with the following:

"[This Section intentionally left blank]"

3. Amendment of Section 4.6 to the Agreement.

Section 4.6 to the Agreement is hereby amended and replaced in its entirety with the following:

"4.6. Payments in Connection with Certain Personal Property Leases.

Notwithstanding anything to the contrary, including Section 2.1(d), Buyer and Parent hereby agree that (i) the leases set forth as items 1 and 2 on Schedule 5.14 shall not be assigned by Parent to Buyer and therefore, shall not be part of the Purchased Assets and (ii) with respect to such leases, Parent shall make and be responsible for the timely payment of the amounts set forth in Exhibit H to the Agreement and Parent shall invoice Buyer for such payments. Buyer shall promptly pay such invoiced amounts to Parent."

4. Addition of Section 8.9 to the Agreement.

The following new Section 8.9 shall be added to the Agreement:

"Section 8.9. Orex Towel Arrangement. Parent shall sell to Buyer OREX(R) towels (collectively, the "Towels") set forth on Exhibit A to the First Amendment to the Agreement out of Parent's existing inventory of such Towels at the discounted price per towel set forth on such Exhibit until July 1, 2001. If at July 1, 2001, Buyer has not enjoyed at least $500,000 of savings in discounted pricing on such Towels, Parent shall pay to Buyer the lesser of (x) $150,000 or (y) the difference between $500,000 and the present value of the savings enjoyed by Buyer at a discount rate of 10% as of July 12, 1999 in connection with the purchase of Towels."

5. Replacement of Certain Schedules.

The parties hereto agree that Schedule 2.4(B) to the Agreement is replaced in its entirety by Schedule 2.4(B) attached to this Amendment as Exhibit B and that such new Schedule shall be a part of the Agreement with the same force and effect as though attached to the Agreement at the time of execution thereof.

6. Miscellaneous.

Upon the execution and delivery hereof, the Agreement shall thereupon be deemed to be amended as hereinabove set forth as fully and with the same effect as though such amendments were set forth in the Agreement when executed

and delivered, and this Amendment and the Agreement shall henceforth be read, taken and construed as one and the same instrument. Except as otherwise provided in this Amendment, the Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on the date first above written.

ALLEGIANCE HEALTHCARE CORPORATION

By: _____
Name:
Title:

ISOLYSER COMPANY, INC.

By: _____
Name:
Title:

MEDSURG INDUSTRIES, INC.

By: _____
Name:
Title:

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CONFIDENTIAL TREATMENT REQUESTED

Confidential Portions Of This Agreement Which Have Been Redacted Are Marked With Brackets ("[***]"). The Omitted Material Has Been Filed Separately With The Securities And Exchange Commission.

Exhibit 2.3

SUPPLY & LICENSE AGREEMENT

THIS Agreement ("Agreement") is effective as of the 12th day of July, 1999 ("Effective Date"), by and between Isolyser Company, Inc., a Georgia corporation, having its principal place of business at 4320 International Blvd., Norcross, Georgia 30093 ("Isolyser") and Allegiance Healthcare Corporation, a Delaware corporation, having its principal place of business at 1500 Waukegan Road, McGaw Park, Illinois 60085 and its Affiliates (collectively referred to as "Allegiance"). "Affiliates" means a direct or indirect subsidiary of Allegiance Healthcare Corporation or its parent company, Allegiance Corporation.

BACKGROUND:

WHEREAS, Isolyser has developed proprietary rights in the manufacture and sale of certain products which it sells under the OREX(R) trademark (the "OREX(R) Products") all of which are manufactured from Isolyser's proprietary degradable polyvinyl alcohol ("PVA") or novel dispersal polymers ("NDP") material which can be dissolved and then disposed via normal sanitary sewer systems ("Material"); and

WHEREAS, Isolyser is also the owner of the trademarks ENVIROGUARD and OREX, for water soluble fabrics and products made therefrom ("Trademarks"), for which registrations or applications for registrations of said Trademarks have been filed in various jurisdictions; and

WHEREAS, Isolyser is also the owner of certain Patents (as hereinafter defined); and

WHEREAS, Isolyser wishes to expand its commercial opportunities through the manufacture and sale of the Material to Allegiance and by licensing to Allegiance the Patents and Trademarks relating to the right to make, use, distribute, sell and dispose healthcare products made from the Material ("Products"); and

WHEREAS, Allegiance desires to distribute and sell the Products under the Trademarks and Patents and to practice the methods of disposal as described in

the Patents on the Products as Allegiance may deem appropriate; and

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants hereinafter set forth, and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Allegiance and Isolyser hereby agree as follows:

1.TERM AND EXTENSIONS

1.1. TERM

Unless otherwise terminated earlier by the parties, the initial term of this Agreement shall begin on the Effective Date and end the earlier of: (1) three years from the date on which all necessary regulatory approvals are obtained to sell at least forty (40) product codes made by Allegiance from the Material or (2) three years and nine months after the Effective Date (the "Term").

1.2. EXTENSION OF AGREEMENT

This term may be extended by mutual agreement of the parties. In the event of a change of control of Isolyser during the Term of this Agreement, the Agreement shall be automatically extended under its current terms for a period of three years following the date of such change of control during the extension period, Allegiance's right to the Material shall be non-exclusive and Allegiance shall have the right to purchase up to an additional 100 million square yards of Material over and above the amount of Material that Allegiance is entitled to purchase prior to the extension period under the same terms and conditions of this Agreement. For purposes of the foregoing, "change of control" shall mean the acquisition of more than 50% of the outstanding capital stock of Isolyser or the purchase of all or substantially all the assets of Isolyser by a person or entity or group that is not currently an affiliate of Isolyser.

2.PATENT PROVISIONS

2.1. PATENT

2.1.1. PATENT LICENSE FOR PRODUCTS.

Isolyser grants to Allegiance a worldwide exclusive license to make, use and sell Products embodying or made in accordance with the inventions claimed in the Patents within and for healthcare applications. "Products" shall include any healthcare device made from the Material or an improvement of the Material, including but not

limited to blow molded, injection molded and case extrusion substances that are dissolvable and are made using PVA or NDP ("Improvements"). "Patents" shall include all patents owned or controlled by Isolyser relating to the Material and shall include, but not be limited to, the patents listed in Exhibit 1 together with any patents which may issue upon any pending applications, continuations, continuations-in-part, divisions, reissues, reexaminations, or renewals of any such patents, as well as any patents which may issue on Improvements. The price terms of Improvements under the Agreement shall be negotiated by the parties.

2.1.2. PATENT LICENSE FOR MATERIALS

Isolyser grants to Allegiance a worldwide exclusive royalty free license for the Term, and any extension thereof, to use the Patents to make Material or have Material made if Isolyser is unable to meet Allegiance's requirements. Allegiance shall exercise the foregoing license only if during any calendar month Isolyser is unable to supply Material in an amount at least equal to the amount supplied in the preceding calendar month and Isolyser is unable to supply Material in such amount during each of the two following calendar months. Notwithstanding the foregoing, in the event that Isolyser is unable to meet Allegiance's requirements because of the failure of Isolyser's suppliers to supply Material to Isolyser or because of demand by Allegiance in excess of Isolyser's productive capacity, Allegiance shall not be entitled to exercise its rights under the foregoing license until six months after written notice from Allegiance to Isolyser of Isolyser's failure to satisfy the requirements of Allegiance. If Isolyser has identified an alternative source of Materials and is satisfying Allegiance's requirements as provided above within such six month period, Allegiance shall not be permitted to exercise its rights under the foregoing license.

2.1.3. RIGHT OF FIRST REFUSAL

Isolyser shall submit to Allegiance specifications and, where possible, samples of any and all Improvements to the Products which Isolyser may conceive or reduce to practice during the term of this Agreement. Within ninety (90) days after such submission, Allegiance may acquire rights to such Improvements by advising Isolyser in writing that Allegiance is electing to have such Improvements included within the definition of Products and by entering into an agreement with Isolyser negotiated at the time which is determined to benefit both parties and maintains a mutually profitable relationship. In the event Allegiance does not elect to distribute such new Products, Isolyser shall have the right to sell those Products as it deems fit in its sole discretion on terms and conditions no more favorable than those offered to Allegiance under this section. It being understood

that no up-front license fee shall be required to be paid by Allegiance.

2.2. TRADEMARK LICENSE

2.2.1. LICENSE GRANT

Isolyser grants to Allegiance a worldwide exclusive license to the Trademarks for use in conjunction with the Products and Improvements for healthcare applications, subject to the provisions of this Agreement.

2.2.2. RESERVATION OF RIGHTS IN TRADEMARKS

The Trademarks are acknowledged by Allegiance to be the exclusive property of Isolyser. Allegiance agrees that the use of any Trademark by Allegiance anywhere in the world shall inure to the benefit of Isolyser. If Allegiance determines that a trademark registration is desirable in any country, it will so advise Isolyser who may proceed to seek the appropriate trademark protection in such country, in its sole discretion.

2.3. NO REPRESENTATIONS

The Patent and Trademark licenses shall be effective worldwide. However, Isolyser does not represent that it has patent or trademark rights in any particular country and Isolyser is not obligating itself by this Agreement to seek such rights in any country.

2.4. NON-TRANSFERABLE

These licenses shall be non-transferable by Allegiance and shall not be subject to sublicenses, without the express written permission of Isolyser, except that there shall be an implied sub-license to any purchaser of Products to use such products for their intended purpose and except as part of an assignment not prohibited by Section 5.3.

2.5. ROYALTIES

2.5.1. DISSOLUTION ROYALTY

Allegiance shall pay Isolyser or its designee a dissolution royalty of [***] of the Net Sales Price of the Products for all Products which are dissolved by or on behalf of Allegiance's customers ("Royalty"), provided that Isolyser shall provide documentation to Allegiance regarding the dissolution of such Products in a form acceptable to Allegiance. The term "Net Sales Price" means the total receipts by Allegiance from the sale of the Product(s) less all

freight, sales or use taxes, trade discounts, returns and allowances granted in lieu of returns. In the event the Product is sold as a component of a kit or other assembly of product, the Net Sales Price for such Products shall be the average Net Sales Price during the same calendar quarter for the Product when sold alone or as not part of a kit.

2.5.2. REPORTS AND RECORDS

Allegiance shall provide Isolyser with tracing reports of sales of Products by Allegiance. Allegiance shall keep records showing the sales or other disposition of Products under licenses granted herein in sufficient detail to enable the Royalties payable hereunder by Allegiance to be determined, and further agrees to permit such records to be examined by Isolyser to the extent necessary to verify the accuracy of the calculation of the Royalty payments above, such examination to be made at the expense of Isolyser by any certified public accountant appointed by Isolyser who shall be reasonably acceptable to Allegiance, provided such certified public accountant executes a confidentiality agreement covering such books and records. Such examination shall occur not more than once in any twelve month period during normal business hours.

2.6. USE OF TRADEMARKS

2.6.1. CONFUSINGLY SIMILAR MARKS

Allegiance shall not use any trademark, mark, name or symbol in conjunction with the Products which may be confusingly similar to the Trademarks and shall not use the Trademarks in any manner which could affect the validity of their registration or Isolyser's exclusive ownership thereof. Allegiance shall not make or permit any removal or modification of any Trademarks placed by Isolyser on Products or associated literature, media, drawings and manuals.

2.6.2. TRADEMARK INFRINGEMENT

If, as a result of the use of the Trademarks, Allegiance, or any of Allegiance's customers should be charged with trademark infringement, Allegiance shall immediately notify Isolyser after Allegiance receives notice of such charge and Isolyser will assume the defense and expense of any proceedings instituted pursuant to such charge. Allegiance shall not institute proceedings for infringement of the Trademarks in its own name. Allegiance agrees to assist Isolyser when requested in such defense or protection of the Trademarks. Isolyser will reimburse Allegiance for out-of-pocket expenses. If any misuse of the Trademarks comes to the Allegiance's attention, it shall promptly notify Isolyser and cooperate with Isolyser in trying to correct such misuse.

2.6.3. MISLEADING CLAIMS

Allegiance shall not make any false, exaggerated, or misleading claim or statement relating to the Products or the performance of the Materials. If such claims or statements are made by Allegiance, Allegiance, upon the request of Isolyser, shall discontinue immediately any use, display, advertising or promotion of the Trademark for the Products in conjunction with such false or misleading claims.

2.6.4. QUALITY ASSURANCE

Allegiance shall permit a designated representative of Isolyser to periodically visit the manufacturing and warehousing facilities of Allegiance which manufacture or store the Products, or any other entity to whom Allegiance has contracted all or a part of the manufacture of the Products hereunder, for the sole purpose to allow Isolyser to inspect the quality of the Products in the course of manufacture or in storage; provided such representative executes a confidentiality agreement and visits during normal business hours after reasonable notice.

2.7. INTELLECTUAL PROPERTY RIGHTS AND OBLIGATIONS

2.7.1. ISOLYSER RIGHTS

Nothing in this Agreement shall be construed as:

(a) a warranty or representation by Isolyser as to the validity of any Patent;

(b) a warranty or representation that any Product made, used, or sold under any license granted in this Agreement is or will be free from infringement of the patents of third parties;

(c) A requirement that Isolyser shall file any patent application, secure any patent or maintain any patent in force; or

(d) An obligation to bring or prosecute actions or suits against third parties for infringement.

2.7.2. WARRANTY

Notwithstanding the foregoing, Isolyser warrants that the Material as manufactured by Isolyser or its disposal by dissolution in accordance with written guidelines set forth by Isolyser does not to Isolyser's knowledge infringe the intellectual property rights of any third party.

2.7.3. PATENT MARKING

Allegiance agrees to observe the reasonable written requirements of Isolyser with respect to the marking of Products with the word 'Patent' followed by the specific number or numbers of the Patent or Patents indicated by Isolyser in writing to be applicable to the Products or its disposal.

2.8. INFRINGEMENT

2.8.1. INFRINGEMENT BY ALLEGIANCE

Allegiance shall give Isolyser prompt notice of each claim or allegation that the manufacture, use, or sale of the Product(s) constitutes an infringement of a patent or patents owned by others. Isolyser shall defend such claims and allegations at its expense and shall indemnify Allegiance against any and all liabilities, costs or expenses arising in connection therewith. If Isolyser does not undertake within thirty (30) days of such notice to defend such claim or allegation, Allegiance shall have the right to retain all of the Royalties otherwise payable to Isolyser, provided Allegiance uses such Royalties to pay for or defray the costs of defending each claim or allegation, including the costs of settling or satisfying the claim or allegation. During the defense of such claims or allegations, Allegiance shall submit written reports to Isolyser, showing payments accruing to Isolyser and the expenses of defending against the claims or allegations of infringement. Upon termination of all proceedings involving such claims or allegations, Allegiance shall remit the balance, if any, of the Royalties accrued but not yet paid to Isolyser and not spent by Allegiance under the terms of this provision. In the event of any infringement claim or allegation as provided above, upon the request of Isolyser, Allegiance will cooperate with the defense of such claim or allegation.

2.8.2. SETTLEMENT OF CLAIM OF INFRINGEMENT

If the settling or satisfying of any claim or allegation of patent infringement requires the payment by Allegiance to a third party of any amounts, including royalties for manufacture, use, or sale of the Product(s), Allegiance shall be entitled to deduct the amounts so paid to a third party from the Royalties due Isolyser under this Agreement.

2.8.3. INFRINGEMENT BY THIRD PARTY

Upon learning of the infringement of a Patent by third parties, Allegiance shall inform Isolyser in writing of that fact and shall supply Isolyser with any evidence available pertaining to the infringement. Isolyser may at its own expense take whatever steps are necessary to stop the infringement and recover damages therefore, and shall be entitled to retain all damages so recovered. If Isolyser does not undertake within thirty (30) days of such notice to enforce the Patent against the infringement, Allegiance shall have the right to take whatever action it deems appropriate in Isolyser=s name or in its own name to enforce the Patent, to retain all of the Royalties otherwise payable to Isolyser, and to use such Royalties to pay for or defray the costs of enforcing the Patent against the infringement by third parties. During proceedings relating to the enforcement of the Patent, Allegiance shall submit written reports, showing payments accruing to Isolyser and the expenses of enforcing the Licensed Patent against the infringement by third parties. Upon termination of all proceedings involving such claims or allegations, Allegiance shall remit the balance, if any, of the payments accrued but not yet paid to Isolyser. The monetary recovery, if any, shall be shared by Isolyser and Allegiance in the same ratio as they have shared the expenses of the Licensed Patent enforcement.

3.PROMOTION OF THE PRODUCTS

3.1. ALLEGIANCE PROMOTION

Allegiance may promote the Trademarks in conjunction with the Products. Such promotions may include activities such as participating in trade shows and educational seminars. Allegiance agrees to use reasonable commercial efforts to maintain marketing/sales employees, trained in the marketing and selling of the Products, who are charged with, among other things, building a market for the Products.

3.2. PRODUCT INTRODUCTIONS

Allegiance shall market the Products as environmentally friendly, solutions based products to the extent such claims are supported by appropriate regulatory approvals and substantiating data. Allegiance agrees that it will employ reasonable business diligence to introduce within six (6) months from the Effective Date of this Agreement, forty (40) product codes fabricated from the Material. Allegiance agrees to use its commercially reasonable business efforts, to the extent supported by appropriate regulatory approvals, to promote the environmental and waste disposal benefits of the Material as part of its on-going sales and marketing strategies. Upon request of Allegiance, Isolyser shall use commercially reasonable business efforts to actively support Allegiance's efforts through resources which are either internally or externally based. Allegiance will reimburse Isolyser for any costs including salaries, fees, equipment and travel expense incurred by Isolyser in connection with such actions provided that such costs or expenditures were approved in writing by Allegiance.

3.3. JOINT DEVELOPMENT AND COMMERCIALIZATION COMMITTEE

Allegiance and Isolyser shall each appoint three members of an eight-member Joint Development and Commercialization Committee ("JDCC"). The JDCC shall meet at least twice a year at sites alternating between Allegiance and Isolyser to discuss and resolve issues related to the development, marketing, promotion and commercialization of the Products. The initial members of the JDCC for Allegiance and Isolyser shall be as follows:

FOR Allegiance:	FOR Isolyser:
Susan Harley	Mike Mabry
John Behm	Martin Paugh
Dave Wagner	Frank Stanton
Additional marketing individual to be designated by Allegiance	Wendy Slattery

3.4. PLANS

The JDCC will develop an operating plan and a sales and marketing plan regarding the Products in the U.S. within sixty (60) days from the Effective Date of this Agreement. Additionally, a world-wide healthcare market plan will also be developed within sixty (60) days from the Effective Date of this Agreement. These plans shall be attached as exhibits to this Agreement after they have been developed. Allegiance will attempt to provide a 90 day rolling forecast that will be reviewed and approved by the JDCC. Further, it is understood that Allegiance may request discussions regarding opportunities for Allegiance to market products made from the Materials in non-healthcare markets in addition to the Products covered under this Agreement.

3.5. GOVERNMENTAL APPROVAL

Isolyser shall use commercially reasonable business efforts to gain approval or consent for disposal of the Products via normal sanitary sewer systems from the Federal, state/provincial and local regulatory and environmental bodies, including publicly-owned treatment works, in all of the United States and Canada. In addition, Isolyser shall use commercially reasonable business efforts to gain approval or consent for the disposal of the Products via normal sanitary sewer systems in all European Community countries and Japan. Isolyser covenants that it already has the necessary approvals or consents for each of the agencies listed in Exhibit 7 and that it has listed in Exhibit 7 any locations which it has determined that such disposal is not allowed. The efforts of Isolyser under this Section 3.5 shall be at the sole cost and expense of Isolyser.

3.6. GPO ACCEPTANCE

Allegiance will use commercially reasonable business efforts to initiate GPO acceptance and distribution of the Products.

3.7. ISOLYSER EXPERTISE

Isolyser agrees that it has and shall diligently maintain its expertise for PVA and NDP materials and will continue to use such expertise to identify applications for technology and works within the healthcare and other markets to create materials that will become the basis for environmentally friendly healthcare products. Also, Isolyser will continue to develop and improve, through methodologies it deems appropriate and advisable, its waste water expertise and processor integration technology, and sales and service to support the expansion of the business base.

3.8. ALLEGIANCE EXPERTISE

Allegiance agrees that it has expertise in the conversion of non-woven roll stock into medical and industrial garments, surgical drapes and general apparel as well as expertise in injection molding and general assembly of medical devices formed from various types of plastic. Allegiance will continue to use and improve upon its sales and marketing expertise and strategies for the development of global marketplace opportunities for products made from the Materials both existing and to be developed. It is understood that, at present, there is no firm obligation of either party to expand this Agreement's application to markets or for products not specifically agreed to.

[***]- CONFIDENTIAL TREATMENT REQUESTED

3.9. NEW PRODUCTS

Subject to Section 3.8, Isolyser agrees to discuss with Allegiance opportunities for Allegiance to market the Products in non-healthcare markets. In the event the parties agree to add additional markets to this Agreement, the parties shall use commercially reasonable efforts to promote and gain approval for the new products in the new market.

4.MANUFACTURING AND SALES PROVISIONS

4.1. MANUFACTURING FOR ALLEGIANCE

Isolyser shall manufacture and/or supply Material in accordance with the Specifications set forth in Exhibit 2 to Allegiance ("Specifications").

4.2. PRICES

The prices for the Material shall be $[***] per square yard f.o.b. shipping point. Allegiance will use reasonable efforts to purchase a [***] product mix between gown and drape Material. Allegiance will work with Isolyser to attempt to lower the basis weight of surgical drapes to reduce isolyser's costs. The cost for purchase exceeding [***] shall be subject to negotiation and agreement

between the parties.

4.2.1. PRICE INCREASES

Isolyser will not increase its prices during the Term of the Agreement.

4.3. ALLEGIANCE'S DUTIES

4.3.1. PURCHASE EXISTING INVENTORY

Allegiance agrees to purchase Isolyser's existing inventory of Material ("Isolyser Inventory"), which inventory is described on Exhibit 4 hereto, during the first nine (9) months of the Term. Allegiance shall not be obligated to purchase Isolyser Inventory to the extent it has a cost to Allegiance in excess of two million dollars ($2,000,000). Allegiance will use commercially reasonable business efforts to sell the Isolyser Inventory to Allegiance customers during the first nine months of this Agreement. To the extent that Allegiance is not able to sell such Isolyser Inventory during this time period, Isolyser agrees to repurchase any unsold Isolyser Inventory held by Allegiance 120 days after Allegiance begins to sell Products under its own 510(k). Isolyser shall purchase such remaining Isolyser Inventory from Allegiance at Allegiance's original cost from Isolyser as specified in Exhibit 4. Purchases under this Section 4.3.1 are not credited against the obligation of Allegiance under Section 4.3.2.

[***]- CONFIDENTIAL TREATMENT REQUESTED

4.3.2. REQUIREMENTS AND MINIMUM PURCHASE AMOUNT

Allegiance shall purchase its requirements for a dissolvable material made from PVA for use in the healthcare field solely from Isolyser during the Term and any extended term of this Agreement. Allegiance's requirements shall include a minimum of [***] ("Minimum Purchase Amount") during the Term of this Agreement; provided Isolyser has not materially breached this Agreement. Isolyser will seek to obtain the dissolution approvals specified in Exhibit 7 within 9 months of the Effective Date (18 months in the case of Japan). If any of the pending approvals are not obtained with such time frames, the Minimum Purchase Amount will be reduced by three times the amount specified for each applicable pending approval. If any potential customer of Allegiance would have to pay an extra fee or surcharge for disposal of the Products because of the composition of the Products, the Minimum Purchase Amount shall be reduced by a reasonable estimate of the total sales amount for Products that could have been sold to each such customer. In addition, if Isolyser or any of its Affiliates

shall fail to perform in any material manner any of its obligations to any of Allegiances customers with respect to the disposal of Products or if any disposal facilities operated or managed by Isolyser or any of its Affiliates shall fail in any material manner to operate at anticipated levels, then the Minimum Purchase Amount shall be reduced by an amount equal to the estimated "normal" purchases of Products by the affected customer minus the actual purchases by such customer. Any ORE(R) Products included as a component of any kits/packs shall be credited toward the Minimum Purchase Amount. In the event Allegiance purchases less than the Minimum Purchase Amount, Isolyser's sole remedy shall be to convert this Supply and License Agreement to a nonexclusive agreement.

4.3.3. SUBMIT ORDERS

Allegiance shall submit its orders for the Minimum Purchase Amount of Materials during the Term of this Agreement on its standard purchase order form, a copy of which is attached hereto as Exhibit 5, the terms and conditions of which are made a part hereof to the extent consistent with the terms set out in the body of the Agreement.

4.3.4. PAYMENT

Allegiance shall pay for such orders on Allegiance's standard terms of payment: net thirty (30) days.

4.3.5. INSTRUCTION

Allegiance shall provide instruction to its customers in the use of the Materials in accordance with Material information provided by Isolyser.

4.4. ISOLYSER'S DUTIES

Isolyser shall:

4.4.1. SHIP PRODUCT

ship promptly Allegiance's orders for Materials at a service level of 98% for the requested delivery date;

4.4.2. REPLACEMENT MATERIAL

replace any defective Material manufactured by Isolyser and provided under this Agreement at no cost to Allegiance or Allegiance's customer;

4.4.3. ADVERTISING

furnish Allegiance, at no cost, reasonable quantities to be specified between the parties in the JDCC of Isolyser's literature,

and customer instruction manuals relating to the Materials and furnish Allegiance, upon written request and at no cost, suitable copy and camera-ready artwork for use by Allegiance in advertising and cataloging;

4.4.4. SAMPLES

provide Allegiance, at no cost, reasonable quantities to be specified between the parties in the JDCC of sample Materials;

4.4.5. TECHNICAL SUPPORT

provide technical support to the sales effort of Allegiance's sales force by providing and maintaining training materials and education where necessary, and providing the technical knowledge of the Materials to assist Allegiance's sales representatives in the service of the Materials and Products;

4.4.6. ACCESS TO RECORDS

provide access to and use by Allegiance of only those records, studies, data and other documents associated with the product development and manufacturing by Isolyser of Products from Material that will assist Allegiance in obtaining any necessary regulatory approval required by Allegiance to sell the Products or to support an advertising or similar challenge to marketing claims; and

4.4.7. 510(K) SUPPORT

grant Allegiance the right to reference certain records, studies, data and other documents associated with the product development and manufacturing of Isolyser products made from Material as is necessary for Allegiance to file its own 510(k) application or applications for Products manufactured from Material.

4.5. MATERIAL WARRANTIES

Isolyser warrants that all Materials shipped are free from defects in workmanship and materials, are fit for their intended purposes, and conform to the Specifications (or conform to any samples provided to Allegiance). Isolyser shall bear responsibility for all costs associated with warranty services, including any freight charges on Materials or Products which do not conform to the warranties set forth herein. Isolyser shall issue credit for all Materials or Products returned to Allegiance or returned by customers to Allegiance which do not conform to the warranties set forth herein and provide Allegiance with written reports of evaluation of such Materials or Products.

4.6. CONFIDENTIALITY

Any written or verbal information which either party provides to the other and identifies as "confidential" will be held in confidence by the receiving party and will not be used for any purpose other than to further the relationship between the parties under this Agreement. The foregoing confidentiality obligation shall not apply if the receiving party can demonstrate that such information: (i) was, at the time of disclosure to it, in the public domain; (ii) after disclosure to it, is published or otherwise becomes part of the public domain through no fault of the receiving party; (iii) was in the possession of the receiving party at the time of disclosure to it without being subject to an obligation of confidentiality; (iv) was received after disclosure to it from a third person who had a lawful right to disclose such information to it; (v) was independently developed by or on behalf of the receiving party by employees or authorized subcontractors who at no time were provided with access to confidential information of the disclosing party; (vi) was required to be disclosed to any governmental body having jurisdiction over Allegiance or Isolyser or their affiliates or any of their respective clients; or (vii) that disclosure is necessary by reason of legal, accounting or regulatory requirements beyond the reasonable control of the receiving party.

4.7. INDEMNIFICATION AND INSURANCE

4.7.1. INDEMNIFICATION

Isolyser shall indemnify and defend Allegiance against all claims, liabilities, losses and expenses (including attorneys' fees) arising out of the manufacture, use or disposal of any Material or Product or allegedly caused by Isolyser's manufacture, or the use or disposal of any Material or Product, except to the extent any personal injury, death or property damage arose from any negligence of Allegiance in manufacture/handling of the Material or any misrepresentation by Allegiance concerning the Material's characteristics, or proper manner of usage. It is understood and agreed that Allegiance=s use of advertising, training and other materials provided by Isolyser shall not constitute misrepresentations by Allegiance hereunder. In the event that any such claims, liabilities, or losses are expressly found not to be caused by the manufacture, use, or disposal of any Material, Allegiance shall reimburse Isolyser for amounts paid by Isolyser under this indemnification provision.

4.7.2. INSURANCE

Isolyser shall take out and maintain general comprehensive liability insurance covering each occurrence of bodily injury and property damage in an amount of not less than Three Million Dollars ($3,000,000) combined single limit with endorsements for: (i) products and completed operations; (ii) blanket contractual liability (deleting

any exclusion for Materials and completed operations liability); and (iii) broad form vendor's liability. Isolyser will immediately furnish to Allegiance a certificate of insurance issued by the carrier evidencing the foregoing endorsements, coverages and limits, and stating that such insurance shall not be cancelable without at least thirty (30) days' prior written notice to Allegiance.

4.8. REGULATORY MATTERS

4.8.1. CONTINUING GUARANTY

Isolyser agrees to execute and comply with the provisions of the Allegiance Continuing Guaranty, a copy of which is attached hereto as Exhibit 6, the terms and conditions of which are made a part hereof to the extent consistent with the terms set out in the body of this Agreement.

4.8.2. PRODUCT RECALL

In the event Allegiance or Isolyser recalls any of the Materials manufactured by Isolyser or Products containing Materials sold or distributed by Allegiance because the Materials, including Materials included in Products, are believed to violate any provision of applicable law, Isolyser shall bear all costs and expenses of such recall, including, without limitation, expenses or obligations to third parties, the cost of notifying customers and costs associated with the shipment of recalled Material or Products containing Materials from customers to Allegiance or Isolyser. Allegiance shall maintain complete and accurate records, for such periods as may be required by applicable law, of all the Materials or Products containing Materials sold by it. The parties will cooperate fully with each other in effecting any recall of the Materials or Products containing Materials, including communications with any purchasers or users.

4.8.3. CUSTOMER COMPLAINT REPORTING

Isolyser shall be responsible for notifying the appropriate federal, state and local authorities of any customer complaints or other occurrences regarding the Materials which are required to be so reported. Allegiance shall provide Isolyser with any information it receives regarding such occurrences.

4.8.4. ACCESS

Isolyser agrees to permit a duly authorized representative of Allegiance to enter and inspect, during normal business hours, the establishments in which any of the Materials are manufactured, packaged, labeled or held solely in order to determine whether said Materials are being manufactured, packaged, labeled or held in

conformity with the terms of this Agreement, (provided such representative executes an appropriate confidentiality agreement and visits during normal business hours after reasonable notice) and further agrees to provide Allegiance with such documents as it may reasonably require to determine whether the Materials are being manufactured, packaged, labeled or held in accordance with the provisions of this Agreement.

5.GENERAL PROVISIONS

5.1. TERMINATION

5.1.1. BREACH

If either party breaches any of the terms of this Agreement, the non-breaching party shall give the breaching party written notice of breach and a reasonable opportunity to cure such breach. If the breaching party fails to cure such breach after written notice and a reasonable opportunity to cure which in any event shall not be more than 60 days, then the non-breaching party shall have the right to terminate this Agreement. If Allegiance is the breaching party, then during such cure period Isolyser reserves the right, without prejudice to any other legal rights or remedies, to require the Allegiance to immediately suspend use of the Trademarks upon Isolyser's written notice of suspension. The suspension shall terminate if and when Allegiance cures the breach. In the event Isolyser terminates this Agreement due to a material breach of the Agreement by Allegiance, Allegiance shall not sell a dissolvable PVA product in the healthcare market during the remaining Term.

5.1.2 [INTENTIONALLY OMITTED].

5.1.3. BANKRUPTCY

Allegiance shall have the right to terminate this Agreement immediately if Isolyser is dissolved, generally fails to pay or admits in writing its inability generally to pay its debts as they become due or is liquidated or ceases for a period of at least sixty (60) days to conduct business in the ordinary course; makes a general assignment, arrangement, or composition agreement with or for the benefit of its creditors; or files a petition in bankruptcy or institutes any action under federal or state law for the relief of debtors or seeks or consents to the appointment of an administrator, receiver, custodian, or similar official, in each case for the dissolution, liquidation or wind up of its business and not for reconstruction or reorganization (or has such a petition or action filed against it and such petition action or appointment is not dismissed or stayed within sixty (60) days).

5.1.4. 60 DAYS' NOTICE

Allegiance shall have the right to terminate this Agreement upon sixty (60) days' written notice to Isolyser if Isolyser, upon being duly notified of a third party's claim for patent infringement or a third party's manufacture, use, or sale of the Product(s) in the Territory, does not undertake to defend such claim or take appropriate action to enforce its Patent.

5.1.5. INVENTORY

Upon termination of this Agreement by either party, Allegiance shall have the right to use its remaining inventory of Material to manufacture Products and to sell its remaining stock of Product(s) provided that Allegiance shall offer Isolyser the first right of repurchase. The Trademark License granted in 2.2.1 will continue until all remaining stock of Products is sold.

5.1.6. EFFECTS OF TERMINATION

Upon any termination of this Agreement pursuant to this Section 5.1 all obligations of the parties hereunder shall cease except obligations with respect to Material sold prior to the time of such termination including payment and delivery obligations.

5.2. OTHER DISTRIBUTORS--WARRANTY AND INDEMNIFICATION

Isolyser warrants that it has no other distributors for the Products in the healthcare market during the term of this Agreement. Isolyser shall indemnify Allegiance for all damages, costs and expenses, including attorneys' fees, resulting from any claims from any prior distributors of Isolyser of the Products relating to the rights granted to Allegiance by Isolyser to sell the Products.

5.3. ASSIGNMENT

This Agreement may not be assigned by either party hereto without the consent of the other party, except to the transferee of or successor to substantially all of the business of such party to which this Agreement relates which transferee or successor shall expressly assume in writing all of the obligations of the assigning party under this Agreement.

5.4. INTERPRETATION

5.4.1. GOVERNING LAW

The parties agree that all provisions of this Agreement, and any questions concerning its construction and interpretation, shall be governed by the laws of the State of Illinois.

5.4.2. PRIOR AGREEMENTS

This Agreement supersedes any and all previous agreements, written or oral, between the parties relating to the subject matter hereof.

5.4.3. AMENDMENTS

No amendment or modification of the terms of this Agreement shall be binding upon either party unless reduced to writing and signed by Isolyser and Allegiance.

5.5. NOTICES

All notices, reports and payments made pursuant to this Agreement shall be addressed to the president with a copy to the general counsel of each party at the address set forth in the first paragraph of this Agreement unless notice of a different address is supplied by either party to the other. All notices, requests and other communications hereunder shall be in writing and shall be deemed to have been duly given at the time of receipt if delivered by hand or mailed registered or certified mail, return receipt requested with postage prepaid, addressed to the President at the address above stated.

5.6. DISPUTE RESOLUTION

5.6.1. ESCALATION

The parties agree that they will attempt to settle any claim or controversy arising out of this Agreement through good faith negotiations in the spirit of mutual cooperation between business executives with authority to resolve the controversy. Each party shall designate an employee who will be the initial contact for resolving disputes. Each party shall raise any questions, claim or controversy with the designated employee of the other party. The designated employees will work together to resolve the relevant issue in a manner that meets the interests of both parties, or until the issue is referred to designated officers of the parties as set forth below in this Section 5.6.1. The employees initially designated by each party for purposes of this Section are as follows:

ISOLYSER: Migo Nalbantyan

ALLEGIANCE: Mike Hudson

The parties may change such designation by giving notice of such change pursuant to Section 5.5 of this Agreement. If the designated employees are unable to resolve any claim or controversy, prior to taking action as provided in Section 5.6.2, the parties shall first submit such claim or controversy to the appropriate general counsel or appropriate legal representative of each party for resolution, and if such general counsel or appropriate legal representative are unable to resolve such claim or controversy, either party may request that their respective chief executive officers, or their respective delegees, attempt to resolve the dispute. The officers or delegees to whom any such claim or controversy is submitted as provided above shall attempt to resolve the dispute through good faith negotiations over a reasonable period, not to exceed 30 days in the aggregate unless otherwise agreed. Such 30 day period shall be deemed to commence on the date of a notice from either party describing the particular claim or controversy.

5.6.2. ARBITRATION

Any dispute that is not resolved by negotiations pursuant to Section 5.6.1 will, upon the written request of either party, be resolved by binding arbitration administered by American Arbitration Association in accordance with the Commercial Arbitration Rules of the American Arbitration Association by a panel of three arbitrators who are qualified in the field of healthcare products. Such arbitrator shall determine a schedule for determination of such dispute, establish the scope of discovery and establish the length of hearings that is reasonable under the circumstances. Such arbitrator shall determine the dispute in accordance with this Agreement and the substantive rules of law and the rules regarding admissibility of evidence (but not the rules of procedure) that would be applied by a federal court sitting in Illinois. The arbitration shall take place in Nashville, Tennessee. Notwithstanding any choice of law provision included in this Agreement, the United States Arbitration Act, 9 U.S.C. Sections 1-16 shall govern the interpretation and enforcement of this arbitration provision. Judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction. Where this Agreement provides for future agreement by the parties, failure to reach such agreement shall not constitute a dispute subject to the provisions of this Section 5.6.2 except as expressly provided otherwise.

5.6.3. INJUNCTIVE RELIEF

Either party may, without inconsistency with this Section 5.6, apply to any court having jurisdiction hereof and seek provisional, injunctive or other equitable relief as necessary to prevent serious and irreparable injury to such party or to others. The parties acknowledge that this contract evidences a transaction involving

interstate commerce. The use of arbitration procedures will not be construed under the doctrine of laches, waiver or estoppel to affect adversely either party's right to assert any claim or defense.

5.7 FORCE MAJEURE

If performance by either party (the "Performing Party") of any service or obligation under this Agreement is prevented, restricted, delayed or interfered with by reason of labor disputes, strikes, acts of God, floods, lightning, severe weather, shortages of materials, rationing utility or communication failures, failure or delay in receiving electronic data, earthquakes, war, revolution, civil commotion, acts of public enemies, blockade, embargo, or any law, order, proclamation, regulation, ordinance, demand or requirement having legal effect of any government or any judicial authority or representative of any such government, or any other act or omission whatsoever, whether similar or dissimilar to those referred to in this clause, which are beyond the reasonable control of such Performing Party, then such Performing Party shall be excused from such performance to the extent that (i) such cause, and the resulting prevention, restriction, delay or interference, were beyond the reasonable control of such Performing Party; and (ii) such Performing Party took all reasonable steps to prevent and mitigate such cause, and the resulting prevention, restriction, delay or interference. Notwithstanding the foregoing, if any prevention, restriction, delay or interference under this Section 5.7 of any material service or obligation of Isolyser continues for at least 60 days, then Allegiance by written notice to Isolyser may terminate its obligations under Section 4.3.2 without further obligation.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers on the day and due first written above.

ISOLYSER COMPANY

By:_____

Its:_____

ALLEGIANCE HEALTHCARE
CORPORATION

By:_____

Its:_____

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CONFIDENTIAL TREATMENT REQUESTED

Confidential Portions Of This Agreement Which Have Been Redacted Are Marked With Brackets ("[***]"). The Omitted Material Has Been Filed Separately With The Securities And Exchange Commission.

EXHIBIT 2.4

CONTRACT MANUFACTURING AGREEMENT

THIS CONTRACT MANUFACTURING AGREEMENT ("Agreement"), dated as of July 12, 1999 (the "Effective Date"), between Allegiance Healthcare Corporation, a Delaware corporation with offices at 1500 Waukegan Road, McGaw Park, Illinois 60085 ("Allegiance"), Isolyser Company, Inc., a Georgia corporation with offices at 4320 International Boulevard, Norcross Georgia 30093 ("Isolyser") and MedSurg Industries, Inc., a Georgia corporation with offices at located at 251 Exchange Place, Herndon, Virginia 22070 ("MedSurg").

BACKGROUND

WHEREAS, Isolyser, MedSurg and Allegiance have consummated the transactions contemplated by the Asset Purchase Agreement dated as of May 25, 1999, as amended (the "Purchase Agreement"), pursuant to which Allegiance agreed to purchase from Isolyser and Isolyser agreed to sell to Allegiance, certain assets used in connection with Isolyser's MedSurg business together with certain liabilities related thereto, all on terms and subject to conditions set forth in the Purchase Agreement;

WHEREAS, Isolyser has agreed to enter into this Agreement to have Isolyser's wholly-owned subsidiary MedSurg, manufacture for Allegiance the Products, as hereinafter defined, all on the terms and subject to the conditions set forth herein; and

WHEREAS, Isolyser hereby agrees to be jointly and severally liable with MedSurg for any and all obligations of MedSurg hereunder;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

TERMS AND CONDITIONS

1. PRODUCTS.

(a) The products covered by this Agreement are those products and accessories set forth in Exhibit A, together with the parts and components necessary for the repair and replacement of such products and accessories ("Products").

(b) MedSurg shall adequately package and label the Products in accordance with Allegiance's current instructions and specifications (including sterilization), a complete and correct copy of which is attached hereto as Exhibit B (as amended from time to time by Allegiance, the "Specifications") which shall be those instructions and specifications in place immediately prior to the Effective Date. Any changes to the artwork for labeling and packaging the products shall be subject to the review and written approval of Allegiance prior to implementation.

2. GRANT OF CONTRACT MANUFACTURING. Allegiance hereby grants to MedSurg the right to manufacture or have manufactured the Products exclusively for Allegiance as provided in this Agreement and Allegiance shall hire MedSurg as a contract manufacturer of the Products and MedSurg accepts such grant. This grant does not include any grant to MedSurg to use any intellectual property owned by Allegiance for the benefit of any third-party.

3. TERM. This Agreement shall be effective as of the Effective Date and shall terminate on January 31, 2000 (the "Termination Date"). After the Termination Date, provided Allegiance shall have given not less than 75 days advance notice to MedSurg of Allegiance's election to continue this Agreement, MedSurg shall continue to manufacture all of the Products upon Allegiance's request at the prices set forth on Exhibit C and pursuant to the terms and conditions of this Agreement. Notwithstanding anything to the contrary contained in this Agreement, Allegiance shall give MedSurg not less than 75 days advance notice of any termination of this Agreement after the Termination Date.

[***]- CONFIDENTIAL TREATMENT REQUESTED

4. PRICING.

(a) Manufacturing Costs shall be reimbursed by Allegiance to MedSurg as follows: Manufacturing costs shall be paid on a bi-weekly basis in the amounts specified in Exhibit D attached hereto (the "Manufacturing Budget"). Any expenses that exceeded the budgeted amounts must be pre-approved by Allegiance. As used in the Agreement, the term "Manufacturing Costs" shall mean with respect to any Product, all Direct Material Costs, Direct Labor Costs, Sterilization and Overhead required to manufacture such Product as described in more detail on Exhibit D hereto. "Direct Material Costs" shall mean reasonable costs incurred in purchasing raw materials (without deduction for waste), including sales and excise taxes imposed thereon, reasonable and customary process generated scrap,

and all costs of packaging components. "Direct Labor Costs" shall mean the reasonable cost of temporary and full-time employees engaged in manufacturing activities who are directly involved in Product manufacturing and packaging and in quality assurance/quality control. "Sterilization" shall mean reasonable costs incurred to produce a sterile finished good including all related "Direct Labor Costs" and "Overhead" allocated specifically to the sterilization of product. "Overhead" allocated to a Product shall mean indirect costs associated with the production, testing, packaging, storage and handling of a Product, including a reasonable allocation of facilities' costs allocable to Product manufacturing and packaging, including electricity, water, sewer, waste disposal, property taxes, 6% Virginia rent tax (if applicable), manufacturing payroll taxes, equipment lease expenses, worker's compensation insurance, salaries (supervisory, maintenance, engineering and management). The allocation and calculation of Manufacturing Costs shall be made in accordance with standard cost and reasonable cost accounting methods in accordance with Generally Accepted Accounting Principles ("GAAP"), applied in a manner consistent with Allegiance=s customary practices.

(b) Cost of sales expenses shall be reimbursed by Allegiance to MedSurg as follows: warehouse salaries shall be paid on bi-weekly basis in the amounts specified in the cost of sales budget specified on Exhibit E attached hereto (the "OCOS Budget"). Any expenses that exceed the budgeted amount must be pre-approved by Allegiance. Allegiance shall have the right to update, amend or otherwise modify the OCOS Budget throughout the term of this Agreement as Allegiance deems necessary based on the transition of manufacturing to Allegiance facilities or as Allegiance reasonably deems appropriate. The OCOS Budget shall be adjusted for transition of manufacturing for actual Cost of Goods Sold.

(c) Selling, general and administrative expenses shall be reimbursed by Allegiance to MedSurg as follows: administrative and customer service salaries, artwork and customer packaging, licenses, fees, permits, office expenses, postage and express shipment expenses, supplies, telephone and non-manufacturing utilities expenses shall be paid on a bi-weekly basis in the amounts specified in the SG&A Budget specified on Exhibit F attached hereto (the "SG&A Budget"), until the Termination Date. Any expenses that exceed the budgeted amount must be pre-approved by Allegiance. Allegiance shall have the right to update, amend or otherwise modify the SG&A Budget throughout the term of this Agreement as it deems necessary based on the transition of manufacturing to Allegiance facilities or as Allegiance reasonably deems appropriate.

(d) MedSurg shall provide to Allegiance all supporting documents and calculations that Allegiance may require to support the calculations of the expenses within the scope of this Section 4. Such documentation shall be delivered to Allegiance promptly upon request. Allegiance shall have the right, at its option, to inspect, review and audit (or have its representatives inspect, review and audit), at reasonable times, all books, records, documents and other data of Isolyser for the purpose of verifying or confirming the expenses within the scope of this Section 4. MedSurg shall give Allegiance or any such representative reasonable access to MedSurg's premises and books, records, documents and other data.

(e) Isolyser shall institute an incentive/retention program for all of MedSurg's employees (the "Program"). Terms of the Program shall be mutually agreed to by the parties. Isolyser shall pay up to $[***] for bonuses to be paid pursuant to the Program, which bonuses shall not be reimbursed by Allegiance. Allegiance will review proposals for additional bonuses in the Manufacturing Budget.

(f) The prices at which Allegiance sells Products shall be solely in the discretion of Allegiance.

[***]- CONFIDENTIAL TREATMENT REQUESTED

5. WORKING CAPITAL DEPOSIT. On the date hereof, Allegiance has delivered to Isolyser a working capital deposit equal to $[***]. Isolyser may use such deposit to cover the costs of reimbursable expenses within the scope of Section 4, but shall refund any amounts so used out of reimbursements received from Allegiance. Upon the termination of this Agreement, Isolyser shall refund the working capital deposit to Allegiance without interest.

6. TRANSITION SUPPORT.

(a) In addition to its manufacturing duties hereunder, MedSurg shall continue to order and manage raw materials, schedule daily manufacturing, perform quality control procedures and provide engineering support for the Products prior to and during asset transfer until Termination. MedSurg shall also endeavor to maintain service levels and fill rates consistent with those levels achieved prior to the Effective Date recognizing that its ability to do so will be impacted by circumstances not within its control. If service levels and/or fill rates drop below those levels achieved prior to the Effective Date, Allegiance may direct Isolyser and MedSurg in any actions necessary to improve such service levels and fill rates. Allegiance shall bear the costs and expenses for any such actions required to be taken by Isolyser or MedSurg.

(b) Isolyser and MedSurg will provide support for the transition of the Products to Allegiance. Such support shall include, but not necessarily be limited to:

(i) technical support and consulting required for training Allegiance engineering, quality, and manufacturing personnel;

(ii) technical support and consulting required to develop Allegiance internal product and process specifications; and

(iii) project management support in developing and implementing transfer plans and schedules.

(c) In furtherance of the transition support to be provided by Isolyser and MedSurg hereunder, Isolyser and MedSurg agree that Allegiance shall have reasonable access to and support of the following employees of MedSurg during the transition period: Plant Manager, Plant Controller and direct reports, and Quality Manager. These employees shall at all times remain employees of MedSurg and not of Allegiance while performing such transition services, and their compensation and benefits shall remain the sole obligation of Isolyser, subject to Isolyser's right to include their compensation and benefits in Direct Labor Costs and Overhead pursuant to Section 4(a) above.

7. ISOLYSER'S DUTIES. Isolyser shall or shall cause MedSurg to:

(a) ship promptly orders for Products F.O.B. Virginia by the most efficient method of ground shipment, when reasonably necessary to meet delivery dates confirmed by MedSurg or to replace Products pursuant to Sections 11 or 14(b) (but not including Product returns); and

(b) without Allegiance's prior written consent, make no modifications to the Products or their key components, including: (i) composition or source of any raw material; (ii) method of producing, processing or testing; (iii) change in subcontractors for producing, processing or testing; and (iv) site of manufacture;

(c) comply with all laws, regulations and/or statutes applicable to the manufacture of the Products and the operation of the Facilities and Equipment;

(d) provide the information system functions described in Schedule 5.8 of the Purchase Agreement;

(e) service customer requirements, including order taking, order tracking, kit version changes, kit quoting, invoicing customers, managing customer credits and cash application; and

(f) maintain books and records in accordance with GAAP reflecting all costs reimbursable hereunder.

8. ALLEGIANCE'S DUTIES. Allegiance shall accept orders for Products submitted by MedSurg in accordance with the provisions of Section 7(d) above within a reasonable time of submission.

9. USE OF FACILITIES AND EQUIPMENT. In connection with the performance by MedSurg and Isolyser of their respective responsibilities under this Agreement,

MedSurg and Isolyser shall possess, use and occupy the premises described on Exhibit G hereto (the "Facilities"). The parties acknowledge that the tenant's interest in the MSI Lease described on said Exhibit G has been assigned to Allegiance, but that the tenant's interest in the Curtis Lease described on said Exhibit G is currently held by MedSurg. In order to facilitate the performance by Isolyser and MedSurg of their responsibilities under this Agreement, Allegiance shall, during the period prior to the termination of this Agreement, make available to MedSurg and shall permit Isolyser to possess and occupy the premises described covered by the MSI Lease, as well as the machinery, equipment, appliances, vehicles, tools, spare parts, accessories, furniture and other personal property listed or referred to in Exhibit H hereto (the "Equipment"). To the extent that the tenant's interest in the Curtis Lease is assigned to Allegiance after the date hereof but prior to the date on which this agreement terminates, Allegiance shall also make available to MedSurg and shall permit Isolyser to possess and occupy the premises covered by the Curtis Lease during the period prior to the termination of this Agreement. Isolyser will cause MedSurg to operate the Facilities and the Equipment in a commercially reasonable manner and maintain them in good and serviceable condition and repair (subject to normal wear and tear) and in accordance with normal industry practice. Isolyser and MedSurg agree to comply with all of the terms of the leases to which the Facilities are subject listed on Exhibit G applicable to the lessee. Upon the termination of this Agreement, Isolyser and MedSurg shall immediately deliver possession of the Facilities (except that, if the tenant's interest in the Curtis Lease has not been assigned to Allegiance prior to said termination of this Agreement, then Isolyser and MedSurg shall not deliver possession of the Facility covered by the Curtis Lease to Allegiance) and the Equipment to Allegiance. As between Allegiance and Isolyser and MedSurg, and without regard to insurance coverage, Isolyser and MedSurg shall bear all reasonable risk of loss of, other than mutually agreed deductibles any tangible Purchased Assets (as defined in the Purchase Agreement) while such Purchased Assets remain in the possession of Isolyser or MedSurg. Notwithstanding the foregoing, Allegiance shall be permitted access to the Facilities at all times during the term of this Agreement.

10. STANDARD OF CARE. Isolyser will cause MedSurg to perform the manufacturing duties described in this Agreement with the same degree of skill, care and prudence customarily exercised by similarly situated persons performing similar functions, and shall refrain and shall cause its employees, agents and representatives to refrain from engaging in any negligent acts or omissions in the performance of such services which result in material damages. Isolyser agrees to indemnify and hold harmless Allegiance and its Affiliates from and against any and all claims, damages, liabilities, losses, costs, obligations, awards, judgments, fines, penalties, fees, expenses or other charges (including fees of counsel and other out-of-pocket costs) arising from Isolyser=s failure to perform its obligations under this Section 10.

11. PRODUCT WARRANTIES. Isolyser warrants that the Products manufactured for or otherwise supplied to Allegiance under this Agreement shall: (i) have been manufactured in accordance with all applicable statutes, ordinances and regulations, including without limitation, the U.S. Food, Drug & Cosmetic Act and the regulations promulgated thereunder (the "Act") including the Good

Manufacturing Practice regulations which are now in force or are subsequently adopted ("Good Manufacturing Practices") by the U.S. Food and Drug Administration (the "FDA"), the Medical Device Directive regulations, and the Quality System Regulations ("QSR") which are now in force or are subsequently adopted by the European Union (the "Medical Device Directive"); (ii) unless otherwise agreed by the parties, have been manufactured at Isolyser's facilities in Herndon, VA and Sterling, VA; (iii) conform to the Specifications; (iv) be free from defects in materials, manufacture and workmanship attributable to MedSurg or its suppliers; and (v) when shipped from the Facilities, not be adulterated or misbranded within the meaning of any applicable law, except to the extent that any such adulteration or misbranding is attributable to Allegiance.

12. INSPECTION AND ACCEPTANCE.

(a) Isolyser will cause MedSurg to test and inspect each lot of Product for compliance with the Specifications prior to the release and shipment thereof to Allegiance or its customer. Isolyser will cause MedSurg to provide a certificate of analysis with each shipment of each lot of Product signed by the responsible MedSurg quality official. This certificate of analysis must include the results (whether numerical or otherwise) for each test performed that verify that the applicable lot of Product is in compliance with the Specifications, as well as a statement that the subject lot was manufactured in compliance with the requirements enumerated in Section 11 above.

(b) Allegiance shall periodically, in its sole discretion, test and inspect certain lots of Products upon receipt thereof. Upon any such testing and inspection, Allegiance may reject any lot of Products if it does not comply with the Specifications by giving Isolyser written notice of such rejection. Any written notice of rejection by Allegiance given to MedSurg shall include identification of the lot number and a description of the Specification failure.

(c) Following receipt of written notice of rejection of a particular lot of Product, MedSurg shall, at Allegiance's option, and at MedSurg's expense, provide a credit, refund or prompt replacement of product to Allegiance; provided, however that if MedSurg does not agree with Allegiance's claim of noncompliance with the Specifications, then the parties shall designate a mutually acceptable third-party laboratory to make a determination on such matter from a sample obtained from the lot shipped to Allegiance or its customer. The decision of the third-party laboratory shall be binding on all parties hereto and all expenses related to such third-party laboratory investigation shall be borne by the party found to have been mistaken as to compliance or noncompliance of the Product. Should such third-party laboratory confirm Allegiance's claim, Isolyser shall at Allegiance's request, promptly provide Allegiance with a credit, refund or prompt replacement of Product.

(d) Allegiance or its customers shall return any rejected products to MedSurg, at MedSurg's expense, to an address that Isolyser may designate within forty-five (45) days of MedSurg receiving written notice of rejection; provided, however, that if MedSurg does not agree with Allegiance's claim of noncompliance

with Specifications, Allegiance shall not be obligated to return the rejected Products to Isolyser until within forty-five (45) days after a final determination is made by a third-party laboratory that such Products do not comply with Specifications as provided in subparagraph (c) above. Absent such designation of address, Allegiance shall ship rejected product to the Facilities. All reasonable freight, insurance and other costs of such shipment, along with any risk of loss, shall be borne by Isolyser.

13. PRODUCT LIABILITY.

(a) Indemnification. Isolyser shall indemnify and hold Allegiance harmless against all claims, actions, costs, expenses (including court costs and legal fees on a full indemnity basis) and other liabilities ("Liabilities") arising out of or in connection with (a) any product liability claim with respect to any Product; (b) MedSurg's failure to comply with the Specifications; (c) any Liabilities incurred by Allegiance relating to MedSurg's manufacture, storage, packaging, handling or shipping of any Product; and (d) any breach of any representation, warranty or covenant contained in this Agreement made by Isolyser or MedSurg to Allegiance.

(b) Insurance. Isolyser shall take out and maintain comprehensive general liability insurance on an occurrence form covering each occurrence of bodily injury and property damage in an amount approved by Allegiance and not less than Three Million Dollars ($3,000,000) combined single limit with endorsements providing coverage for: (i) products and completed operations liability; (ii) blanket contractual liability (deleting any exclusion for products and completed operations liability); and (iii) vendor's liability. Isolyser shall cause MedSurg and Allegiance to be named as an additional insured on such policy. Upon execution of this Agreement, Isolyser will immediately furnish to Allegiance a certificate of insurance issued by the carrier evidencing the foregoing endorsements, coverages, limited, and stating that such insurance shall not be cancelable without at least thirty (30) days prior written notice to allegiance.

14. REGULATORY MATTERS.

(a) Quality Assurance. Each lot of Product to be supplied to Allegiance hereunder shall be subject to a quality assurance inspection by MedSurg to ensure that the Products meet the requirements of Section 12.

(b) Process Change Provisions and Procedure. All modifications, changes, additions or deletions to the (i) Product Specifications; (ii) changes in the expiration period for the Products; (iii) composition or source of any raw materials; (iv) methods of producing, processing or testing; or (v) change in subcontractors for producing, processing or testing; (vi) site of manufacture; which MedSurg intends to carry out must be evaluated and documented by MedSurg. At least ninety (90) days prior to implementation of any such change, MedSurg agrees to advise Allegiance in writing of such and to obtain Allegiance's prior written consent to do so, which consent shall not be unreasonably withheld. Upon the implementation of any change contemplated by

this Section 14(b), Allegiance shall make any appropriate notifications to the FDA and/or any other applicable regulatory authority or agency and shall provide copies of such notification to MedSurg as promptly as practicable, provided that Allegiance may exclude any information deemed confidential or competitively sensitive.

(c) Validation. MedSurg shall be responsible to ensure that all facilities, utilities, equipment and the processes utilized to manufacture the Products are satisfactorily validated according to the FDA guidelines, to the extent applicable, except to the extent that such facilities, equipment and processes were not so validated as of the date hereof.

(d) Batch Records. Records which include the information relating to the manufacturing, packaging and quality operations for each lot of Product shall be prepared by Isolyser or MedSurg for each lot at the time such operations occur. Such records shall be prepared in accordance with Good Manufacturing Practices and Isolyser's standard operating procedures. These documents for each lot may be reviewed during normal business hours by Allegiance at Isolyser's sites of manufacturing of the Products upon Allegiance giving seven (7) days written notice of its intent to review such documents. Allegiance shall be permitted to review such documents as soon as practicable after giving notice to Isolyser of its intent to do so. MedSurg shall keep batch records for each lot of Product for a period of time required by any and all applicable statutes, ordinances and regulations, including with limitation, the Act and the regulations promulgated by the FDA.

(e) Regulatory Visits and Inspections. MedSurg shall permit FDA and other regulatory agents to perform routine inspections of the Facilities and any other facilities which contain the manufacturing operations for the Products and shall immediately notify Allegiance of any such regulatory inspections and the results thereof that affect the manufacturing processes of the Products or that may impair MedSurg's ability to supply Products to Allegiance. Should any issues arise in the course of such inspection, Isolyser and Allegiance shall consult with each other in resolving such issues. Upon reasonable advance notice to MedSurg's plant manager at the applicable facility, Isolyser shall allow a duly authorized representative of Allegiance to enter and inspect such facility from time to time during normal business hours to monitor MedSurg's adherence to quality assurance and regulatory compliance standards.

(f) Regulatory Correspondence. Isolyser shall deliver to Allegiance all copies of correspondence between Isolyser or MedSurg and any regulatory agencies or authorities that in any way may impair the ability of Isolyser or MedSurg to comply with their obligations under this Agreement. Isolyser shall deliver such correspondence to Allegiance within five (5) business days of distributing or receiving such correspondence, as the case may be.

(g) No Debarred Service Providers. To their knowledge after reasonable inquiry, Isolyser and MedSurg have not and will not use the services of employees or subcontractors who have been debarred by the FDA, in connection with complying with its obligations under this Agreement.

(h) Product Complaints. In the event that Isolyser or MedSurg receives any complaints regarding the Products, it shall promptly notify Allegiance of such. Isolyser shall be responsible for evaluating and investigating these complaints and communicating the results thereto to Allegiance in writing within ten (10) business days of notification; provided that, if any such investigation requires more than ten (10) business days to complete, Isolyser shall so notify Allegiance of such in writing within the aforesaid ten (10) business days. Isolyser will make a preliminary evaluation of each complaint received and will conduct all follow-up, communications and maintenance of records with respect to such complaints as required by applicable law and will cooperate with Allegiance in the resolution of such product complaints. Allegiance shall be responsible for making all necessary reports to the FDA and/or any other applicable regulatory agency or authority and shall provide copies of such reports to Isolyser as promptly as practicable, provided that Allegiance may exclude any information deemed confidential or competitively sensitive.

(i) Recall Action.

(i) In the event Allegiance should be required or should voluntarily decide to initiate a recall, Product withdrawal, or field correction of any of the Products, Allegiance shall notify Isolyser and provide a copy of its recall letter. In conjunction with such recall, Isolyser and MedSurg shall assist in the investigation to determine the cause and extent of the problem and the parties shall fully cooperate with each other concerning the necessity and nature of such action.

(ii) In the event that Isolyser independently believes that a recall, Product withdrawal or field of correction for any of the Products may be necessary or appropriate, Isolyser shall notify Allegiance of Isolyser's belief, and the parties shall fully cooperate with each other concerning the necessity and nature of such action.

(iii) All coordination of any recall or field correction activities involving any of the Products shall be handled by Allegiance whether or not such action was initially requested by Isolyser.

(iv) In the event that any Product is recalled as a result of the supply by Isolyser or MedSurg of Product that does not conform to Specifications and/or the warranties set forth in Section 11 of this Agreement or the negligent or intentionally wrongful act or omission of Isolyser or MedSurg or their representatives, then, Isolyser shall bear all of the

reasonable costs and expenses of such recall, including without limitation, expenses related to communications and meetings with all required regulatory agencies, expenses of replacement stock, the cost of notifying customers and costs associated with shipment of recalled Product from customers and shipment of an equal amount of replacement Product to those same customers.

(j) Manufacturing Facility. Isolyser hereby agrees to maintain with the FDA the registration as a device manufacturing establishment of the facilities located in Herndon, VA and Sterling, VA, and shall maintain the existing ISO9002 and ISO9001 certification for such facilities respectively. Allegiance hereby agrees to cooperate with Isolyser to the extent reasonably requested by Isolyser in order to make the filings and maintain the certifications contemplated by this Section 14(j).

15. TRADEMARKS AND TRADE NAMES. Isolyser recognizes that Allegiance is the owner of the trademarks and trade names placed on or supplied with the Products by or at the request of Allegiance ("Allegiance Trademarks"). Isolyser and MedSurg have no right or interest in such Allegiance Trademarks. Isolyser and MedSurg recognize that any and all use of such Allegiance Trademarks by Isolyser or MedSurg is under license from Allegiance and that all such use inures to the benefit of Allegiance. Upon termination of this Agreement, Isolyser and MedSurg shall discontinue the use of such Allegiance Trademarks. Except in the manner specified in the Specifications, neither party shall use any trademark or trade name of the other party or a confusingly similar trademark or trade name during or after the term of this Agreement.

16. YEAR 2000 COMPLIANCE. Except as provided on the applicable disclosure schedule to the Purchase Agreement, Isolyser represents and warrants to Allegiance that all computer software and hardware owned or used by Isolyser, or licensed by Isolyser as licensor or as licensee is Year 2000 Compliant (as defined below). For the purposes of this Agreement, "Year 2000 Compliant" shall mean (i) all such software and hardware shall operate in four-digit year format, without errors in the recognition, calculation and processing of date data relating to century recognition, leap years, single and multi-century formulae, date values and interfaces of date-related functionalities, (ii) all date processing shall be conducted in a four-digit year format and all date sorting that includes a "year filed" or "year category" shall be based upon a four-digit year format; and (iii) any date arithmetic programs or calculators in the software and hardware shall operate in accordance with the related user documentation in the Year 2000 and the years following without degrading functionality or performance.

17. EMPLOYEES.

(a) MedSurg is the employer of all persons (the "Employees") rendering services which relate, either directly or indirectly, to the manufacture of the

Products or the otherwise provided by Isolyser or MedSurg hereunder. Isolyser shall have the sole responsibility for all matters relating to the maintenance of personnel and payroll records, the withholding and payment of federal, state and local income and payroll taxes, the payment of workers' compensation and unemployment compensation insurance, salaries, wages and pension, welfare and other fringe benefits, including any severance which may be triggered as a result of any termination employment (including termination relating to the termination of this Agreement) and the conduct of all other matters relating to labor relations, including compliance with Isolyser's and MedSurg's obligations under any applicable collective bargaining agreements and all negotiations and communications with any union relating to employment of the Employees by MedSurg. Isolyser shall be solely responsible for compliance with all applicable labor and employment laws relating to the Employees and shall indemnify Allegiance (and its successors, assigns, officers, directors and employees) for any liability or legal or other expenses that result from any legal action alleging noncompliance with such laws.

(b) During the term of this Agreement, Isolyser and MedSurg shall provide and keep in full force and effect worker's compensation insurance with respect to the Employees consistent with the coverage maintained by Isolyser immediately prior to the execution of this Agreement.

(c) Isolyser may maintain such liability insurance coverage as it shall deem appropriate with respect to liabilities arising out of the acts and omissions of the Employees in the performance of their services.

(d) Isolyser and MedSurg shall be solely responsible for the administration of all their employee benefits plans, programs, agreements and arrangements and compliance with all requirements of all applicable laws, including the Employee Retirement Income Security Act, the Internal Revenue Code and the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), as amended. Isolyser and MedSurg shall be solely responsible to provide continuation coverage under COBRA or any applicable state law to any Employee or beneficiary of any Employee who is entitled to such continuation coverage, and shall indemnify Allegiance (and its successors, assigns, officers, directors, employees and employee benefits plans) for any liability resulting from Isolyser's failure to provide such continuation coverage.

(e) Isolyser and MedSurg shall have the responsibility of giving the Employees any notice (a "Warn Notice") required under the Worker Adjustment and Retraining Notification Act of 1988, as amended (the "WARN Act"). Isolyser and MedSurg shall comply with all applicable requirements of the WARN Act and shall indemnify Allegiance (and its successors, assigns, officers, directors and employees) for any liability or legal or other expenses resulting from any legal action alleging noncompliance with such act.

(f) Isolyser and MedSurg shall have sole responsibility for the employment and daily supervision of the Employees. Such responsibilities shall include, without limitation, the hiring, termination, transfer, promotion, demotion and job responsibilities of the Employees, as well as the determination of the staffing levels needed to satisfy the production schedule and other operating requirements.

18. CONFIDENTIALITY. As part of the ongoing relationship between Allegiance and Isolyser and MedSurg it is contemplated that the parties will exchange valuable information, some of which is proprietary or confidential. Any and all such information deemed confidential by a disclosing party shall be identified as confidential at the time of disclosure. Each party agrees not to disclose such confidential information to any third party or use such confidential information for any purpose other than performance under this Agreement. This obligation shall not apply to information which is or becomes generally available to the public through no fault of the receiving party, is possessed by the receiving party prior to receipt of the information from the disclosing party, becomes known to the receiving party from a third party who has no obligation of confidentiality to the disclosing party or is developed by the receiving party independently of the information received from the disclosing party.

19. NON-COMPETITION. During the Term of this Agreement, Isolyser and MedSurg agree not to use any of the Facilities or Equipment for any purpose other than the manufacture or supply of Products to Allegiance pursuant to this Agreement.

20. TERMINATION. Either party shall have the right to terminate this Agreement on written notice if the other party (i) commits or suffers any act of bankruptcy or insolvency or (ii) fails to cure any material breach in the provisions of this Agreement within thirty (30) days after written notice of such breach has been given.

21. NOTICES. Any notice, consent, waiver, or other communication that is required or permitted hereunder shall be sufficient if it is in writing, signed by or on behalf of the party giving such notice, consent, waiver or other communication, and delivered personally or by overnight courier, postage prepaid, to the addresses set forth below, or to such other addressee or address as shall be set forth in a notice given in the same manner:

If to Allegiance:

Allegiance Healthcare Corporation
1430 Waukegan Road
McGaw Park, Illinois 60085-6787
Attention: General Manager

With a copy to:

if to Isolyser or MedSurg:

Isolyser Company Inc.
4320 International Blvd.
Norcross, Georgia 30093
Attention: President

With a copy to:

Allegiance Healthcare Corporation
1430 Waukegan Road
McGaw Park, Illinois 60085-6787
Attention: General Counsel

Arnall, Golden & Gregory, LLP
2800 One Atlantic Center
1201 West Peachtree Street
Atlanta, Georgia 30309
Attention: Stephen D. Fox

22. EXISTING OBLIGATIONS. Isolyser and MedSurg represent and warrant that the terms of this Agreement do not violate any existing obligations or contracts of Isolyser or MedSurg. Isolyser shall defend, indemnify and hold harmless Allegiance from and against any and all claims, demands, actions or causes of action which are hereafter made or brought against Allegiance and which allege any such violation.

23. GOVERNING LAW. This Agreement shall be governed by the laws of the State of Illinois, applicable to contracts made and to be performed in that state. Isolyser hereby submits to the jurisdiction of the courts of that state for purposes of resolving any dispute.

24. ATTORNEY'S FEES. In the event of a controversy, claim or dispute between the parties hereto arising out of or relating to this Agreement or any of the documents provided for herein, or the breach thereof, the prevailing party shall be entitled to recover from the losing party reasonable attorney's fees, expenses and costs.

25. ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of, the parties hereto and their respective successors, permitted assigns, heirs and personal representatives. Isolyser and MedSurg may not assign their rights or obligations under or related to this Agreement without the prior written consent of Allegiance. Allegiance shall not assign this Agreement other than to one of its affiliates.

26. ENTIRE AGREEMENT. This Agreement and the other documents and instruments referred to in this Agreement embody the entire agreement and understanding of the parties to the this Agreement relating to the subject matter of this Agreement and supersedes any previous oral or written agreements between the parties.

27. AMENDMENTS. No amendment or modification of the terms of this Agreement shall be binding on either party unless reduced to writing and signed by an authorized officer of the party to be bound.

28. COUNTERPARTS. This Agreement may be executed in two or more counterparts, and by different parties on separate counterparts, and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement.

29. INVALID OR UNENFORCEABLE PROVISION. The invalidity or unenforceability of any provision of this Agreement shall not effect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision was omitted.

30. EXPENSES. Each party to this Agreement shall pay its or their own expenses, including, but not limited to the expenses of its or their own counsel and accountants, in connection with the consummation of the transactions contemplated by this Agreement.

31. ANNOUNCEMENTS. All press releases or other public communications of any sort relating to this Agreement and the transactions contemplated hereby, including the method of release for the publication thereof, shall require the prior written approval of both Allegiance and Isolyser unless otherwise required by laws, rules or regulations or the rules of any stock exchange.

32. WAIVER. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided in writing.

33. INDEPENDENT CONTRACTOR. The relationship created hereby between the parties shall be that of independent contractors. Neither party shall be the legal agent of the other for any purpose whatsoever and therefore has no right or authority to make or underwrite any promise, warranty or representation, to execute any contract or otherwise to assume any obligation or responsibility in the name of or on behalf of the other party, except to the extent specifically authorized in writing by the other party. Neither party shall be bound by or liable to any third party for acts or obligations or debts incurred by the other toward such third party, except to the extent specifically agreed to in writing by the party to be so bound.

* * * * *

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their authorized representatives named below.

Allegiance Healthcare Corporation

By _____
Name:
Title:
Date:

Isolyser Company, Inc.

By _____
Name:
Title:
Date:

MedSurg Industries, Inc.

By _____
Name:
Title:
Date:

::ODMA\PCDOCS\CHICAGO4\869986\8
861989v1

861978v1 Exhibit 2.5

ESCROW AGREEMENT

THIS ESCROW AGREEMENT, dated as of July 12, 1999 (this "Agreement"), between Allegiance Healthcare Corporation, a Delaware corporation ("Buyer"), The First National Bank of Chicago, as Escrow Agent (the "Escrow Agent"), and Isolyser Company, Inc. ("Parent").

W I T N E S S E T H:

WHEREAS, Buyer, Parent and MedSurg Industries, Inc., a Georgia corporation ("MedSurg") are parties to the Asset Purchase Agreement, dated as of May 25, 1999, as amended (the "Purchase Agreement"), pursuant to which Buyer has agreed to purchase and Parent has agreed to sell the Business and certain of the assets of the Business, together with certain liabilities related thereto, all on the terms and subject to the conditions set forth therein;

WHEREAS, under the Purchase Agreement, Parent has agreed to indemnify and hold harmless Buyer (and each Buyer Group Member) to the extent provided in Article XI of the Purchase Agreement;

WHEREAS, to ensure that funds will be available to indemnify and hold harmless Buyer as required by Article XI of the Purchase Agreement. The Purchase Agreement provides that $3,130,000 (the "Escrow Fund") be delivered pursuant to the terms of Section 4.2 of the Purchase Agreement and shall be deposited in an escrow account established pursuant to this Agreement and held and subsequently disbursed in accordance with the terms of this Agreement;

WHEREAS, the Escrow Agent has agreed to hold and disburse the Escrow Fund so deposited pursuant to the terms of this Agreement; and

WHEREAS, capitalized terms used but not defined herein shall have the meanings assigned to them in the Purchase Agreement.

NOW THEREFORE, in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

Section 1. Appointment of Escrow Agent. Parent and Buyer hereby appoint The First National Bank of Chicago to act as Escrow Agent under this Agreement, and The First National Bank of Chicago hereby accepts such appointment.

Section 2. Deposit of Escrow Fund. Buyer, on behalf of Parent, is delivering to the Escrow Agent, and the Escrow Agent acknowledges that it has received the Escrow Fund.

The Escrow Agent will hold the Escrow Fund in escrow upon the terms and conditions set forth in this Agreement.

Section 3. Cash and Investments. The Escrow Agent shall invest and reinvest the Escrow Fund in such savings accounts, certificates of deposit, money market accounts or funds (including without limitation government and other short-term corporate obligations and funds managed by the Escrow Agent or one of its Affiliates) as Parent and Buyer shall mutually agree and shall instruct the Escrow Agent in writing, so long as the Escrow Fund is available for disbursement by wire transfer or certified check within ten (10) business days after the Escrow Agent is authorized to release any amount of the Escrow Fund pursuant to this Agreement. In the absence of such an agreement and written instructions, the Escrow Fund will be invested by the Escrow Agent in the One Group Treasury Cash Management Money Market Fund or a successor or similar fund. Any interest or other earnings realized from investment of the Escrow Fund shall be considered, and be disposed of by the Escrow Agent as part of the Escrow. Uninvested funds held hereunder shall not earn or accrue interest. Any loss or expense incurred as a result of any such investment will be borne by the Escrow Fund.

Section 4. Taxes. Parent shall be responsible for and pay any and all taxes, assessments and other governmental charges imposed on or with respect to any income or gain generated by the Escrow Fund; Buyer shall be responsible for any other assessments or governmental charges imposed on or with respect to the Escrow Fund.

Section 5. Claims.

(a) Buyer may give written notice (each, an "Indemnification Notice") to the Escrow Agent and Parent of the assertion of any claim, or the commencement of any suit, action or proceeding, which it discovers or of which it receives notice which might give rise to a claim against Parent under Article XI of the Purchase Agreement (each, a "Claim"). The Escrow Agent is not responsible for determining that any Claim meets the requirements of the Purchase Agreement. Such Indemnification Notice shall specify the nature of the Claim and, to the extent known, the basis for the Claim and an estimate of the amount of Damages (as defined in Section 5(b) below). The right of Buyer to indemnification from the Escrow Fund while it is held by the Escrow Agent shall apply only to those Claims as to which Buyer shall have given an Indemnification Notice to the Escrow Agent and Parent. Any covenant, agreement, representation or warranty which is the subject of a Claim shall continue to survive until such Claim is finally determined as herein provided.

(b) Parent shall have a period of ten (10) business days from the date of evidence of receipt of an Indemnification Notice to object and provide written notice to Buyer and the Escrow Agent of an objection ("Object" or an "Objection") to a Claim identified in an Indemnification Notice. Any such Objection shall be to the merits or the amount of the Claim or to both the

merits and the amount of the Claim. If Parent fails to furnish notice of an Objection within such ten (10) business day period, Parent shall be conclusively presumed to have agreed to indemnify and hold Buyer harmless with respect thereto, and Buyer shall be entitled to be indemnified for all losses, damages, liabilities, costs and expenses (including without limitation reasonable attorneys fees and expenses of investigation) (collectively, "Damages") with respect to such Claim. Buyer shall be entitled to receive directly from the Escrow Agent the dollar amount of Damages with respect to any Claim. Buyer and Parent may discuss any Claim as to which Parent Objects. To the extent that Buyer and Parent agree that indemnification with respect to any such Claim is required and agree on the amount of Damages, they shall give joint written notice to the Escrow Agent to that effect. If Buyer and Parent fail to agree as to whether indemnification with respect to any such Claim is required and/or the amount of such indemnification, or fail to give notice to the Escrow Agent that they agree that indemnification with respect to any such Claim is required and the amount of any Damages, within twenty (20) business days (which period may be extended upon the written agreement of Buyer and Parent and notice thereof given to the Escrow Agent) after the date of the notice of Objection is given to Buyer and the Escrow Agent, Parent or Buyer may thereafter proceed to resolve the matters which have not been agreed upon as provided in Article XI of the Purchase Agreement, provided that the notice of Objection shall be deemed to constitute notice of a Dispute.

(c) In the event the Indemnification Notice relates to a claim by a third party and Parent acknowledges in writing to Buyer without qualification or condition the obligation of Parent to indemnify Buyer with respect to such claim and any party provides a copy of such writing to the Escrow Agent, all Damages incurred in respect of any such claim shall be paid from the Escrow Fund in accordance with Section 6 and consistent with the provisions of Section 5(b) above.

Section 6. Release of Escrow Fund.

(a) The Escrow Agent shall release the Escrow Fund from the escrow under this Agreement as set forth below:

(i) Not more than ten (10) business days following receipt of a written notice of Final Determination (as defined in Section 6(b) below), the Escrow Agent shall distribute to Buyer (or to such other person or entity as Buyer may instruct) the dollar amount from the Escrow Fund equal to the amount of Damages with respect to such Final Determination. In the case of a Claim for which an Indemnification Notice has been provided to the Escrow Agent but for which a Final Determination has not been made, the Escrow Agent shall continue to hold an amount of cash from the Escrow Fund equal to the amount of Damages specified by Buyer (including without limitation any additional Damages which Buyer from time to time notifies the Escrow Agent have been incurred or are expected to be incurred) or, if such amount exceeds the Escrow Fund, the entire Escrow Fund, in escrow until a Final Determination of such Claim has been made, at which time

the Escrow Agent shall distribute to Buyer cash from the Escrow Fund as set forth in the first sentence hereof.

(ii) Not more than ten (10) business days following the Escrow Termination Date (as defined in Section 7 below), that portion of the Escrow Fund remaining in escrow on such date shall be released by the Escrow Agent, and the Escrow Agent shall distribute the Escrow to Parent.

(b) For the purpose of this Agreement with respect to any Claim, a "Final Determination" shall mean receipt by the Escrow Agent of (i) an Indemnification Notice pursuant to Section 5(a) hereof as to which Parent fails to Object on a timely basis pursuant to Section 5(b) of this Agreement and written notice from Buyer setting forth an amount of Damages, (ii) a copy of a writing in which Parent acknowledges that indemnification is required without regard to the amount of Damages or of up to a particular amount of Damages and notice from Buyer setting forth an amount of Damages, (iii) a notice of a written agreement signed by Buyer and Parent setting forth the amount of Damages, (iv) a copy of a final arbitration award or final order, judgment or decree reflecting the right of Buyer to indemnification and a notice from Buyer setting forth an amount of Damages which Buyer represents is consistent with such award or final order, judgment or decree or (v) a copy of a final arbitration award or final order, judgment or decree reflecting no right of indemnification.

Section 7. Term. The term of this Agreement shall expire at 11:59 p.m. (central time) one year after the date hereof (the "Claim Date"), or, if as of the Claim Date a Claim (or Claims) made pursuant to this Agreement is (or are) pending, upon the resolution and payment of all such Claims as certified jointly by Buyer and Parent (the "Escrow Termination Date").

Section 8. Escrow Agent.

(a) The Escrow Agent shall be entitled to receive such fees as set forth on Exhibit A hereto, and shall be reimbursed for all reasonable out-of-pocket expenses incurred by the Escrow Agent in the performance of its duties hereunder. All such fees and reimbursements shall be shared equally by Parent and Buyer.

(b) The Escrow Agent may resign at any time by giving notice of such resignation to Buyer and Parent specifying a date not earlier than thirty (30) days later, when such resignation is desired. Parent and Buyer by mutual agreement may at any time and with or without cause remove the Escrow Agent upon at least ten (10) days written notice to the Escrow Agent. If the Escrow Agent resigns, is removed or is unable to serve or fails to serve as the Escrow Agent, Buyer and Parent shall appoint a successor Escrow Agent by mutual agreement. If the Escrow Agent resigns and Buyer and Parent are unable to agree upon a successor Escrow Agent within thirty (30) days after such notice of resignation, the Escrow Agent shall have the right to petition a court of competent jurisdiction for the appointment of a successor escrow agent. The Escrow Agent shall continue to serve until its successor accepts the escrow and receives the

Escrow Fund. Any successor Escrow Agent shall execute an instrument accepting the appointment as Escrow Agent hereunder and agreeing to be bound by the provisions of this Agreement.

(c) The Escrow Agent undertakes to perform only such duties as are specifically set forth herein and may conclusively rely, and shall be protected in acting or refraining from acting, on any written notice, instrument or signature believed by it to be genuine and to have been signed or presented by the proper party or parties duly authorized to do so.

(d) The Escrow Agent shall not be liable for any action taken or omitted by it in good faith and believed by it in good faith to be authorized hereby or within the rights or powers conferred upon it hereunder, nor for action taken or omitted by it in good faith and in accordance with advice of counsel (which counsel may be of the Escrow Agent's own choosing), and the Escrow Agent shall not be liable for any mistake of fact or error of judgment or for any acts or omissions of any kind unless caused by its fraudulent or wilful misconduct or gross negligence.

(e) The Escrow Agent shall be obligated to perform only such duties as are expressly set forth in this Agreement. No implied covenants or obligations shall be inferred from this Agreement against the Escrow Agent.

(f) Buyer and Parent jointly and severally, hereby indemnify and hold harmless the Escrow Agent from and against any and all loss, liability, cost, damage and expense, including, without limitation, reasonable counsel fees, which the Escrow Agent may suffer or incur by reason of any action, claim or proceeding brought against the Escrow Agent arising out of or relating in any way to this Agreement or any transaction to which this Agreement relates unless such action, claim or proceeding is the result of the fraudulent or wilful misconduct, gross negligence or bad faith of the Escrow Agent.

(g) The Escrow Agent shall not have any right, claim or interest in any portion of the Escrow Fund except in its capacity as Escrow Agent hereunder.

(h) The Escrow Agent shall have no responsibility to inquire into or determine the genuineness, authenticity, or sufficiency of any securities, checks, or other documents or instruments submitted to it in connection with its duties hereunder.

(i) The Escrow Agent shall be entitled to deem the signatories of any documents or instruments submitted to it hereunder as being those purported to be authorized to sign such documents or instruments on behalf of the parties hereto, and shall be entitled to rely upon the genuineness of the signatures of such signatories without inquiry and without requiring substantiating evidence of any kind.

(j) The Escrow Agent shall be entitled to refrain from taking any action contemplated by this Agreement in the event that it becomes aware of any disagreement between the parties hereto as to any facts or as to the happening of any contemplated event precedent to such action.

(k) The Escrow Agent shall have the right, but not the obligation, to consult with counsel of choice and shall not be liable for action taken or omitted to be taken by the Escrow Agent either in accordance with the advice of such counsel or in accordance with any opinion of counsel to the Settlor addressed and delivered to the Escrow Agent.

(l) The Escrow Agent shall have the right to perform any of its duties hereunder through agents, attorneys, custodians or nominees.

(m) Any banking association or corporation into which the Escrow Agent may be merged, converted or with which the Escrow Agent may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, shall succeed to all the Escrow Agent's rights, obligations and immunities hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

Section 9. Miscellaneous.

(a) All notices or other communications required or permitted hereunder shall be in writing and shall be deemed given or delivered (i) when delivered personally, (ii) if transmitted by facsimile when confirmation of transmission is received or (iii) if sent by registered or certified mail, return receipt requested, or by private courier when received; and shall be addressed as follows:

(i) if to Buyer, to:

Allegiance Healthcare Corporation
1430 Waukegan Road
McGaw Park, IL 60085
Attention: General Counsel
Telecopier: (847) 578-4416

(ii) if to Parent, to:

Isolyser Company, Inc.
4320 International Blvd. N.W.
Norcross, GA 30093
Attention: President
Telecopier: (770) 806-8869

(iii) if to the Escrow Agent:

The First National Bank of Chicago
One First National Plaza, Mail Code IL1-0126
Chicago, Illinois 60670

Attention: Corporate Trust Services Division,
Renee K. Maron
Telecopier: (312) 407-8929

Any party may add or change parties for receiving notice in the manner provided herein given to the others named above.

(b) This Agreement shall be governed by, and construed, enforced and interpreted in accordance with, the substantive laws (without regard to its conflicts of laws provisions) of the State of Illinois.

(c) 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.

(d) No party may assign (except by operation of law) any of its rights or obligations under this Agreement without the written consent of all of the other parties, which consent shall not be unreasonably withheld.

(e) This Agreement, and the rights and obligations of the parties hereunder, shall inure to the benefit of and be binding on the parties hereto and their respective successors and assigns.

(f) No amendment, waiver or consent with respect to any provision of this Agreement shall in any event be effective, unless the same shall be in writing and signed by the parties hereto, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. Any party's lack of enforcement of any provision herein shall not be construed as a waiver and the non-breaching party may elect to enforce any such provision at any time in the event of a past, repeated or continuing breach. The rights and remedies herein are the exclusive rights and remedies that any party may have upon a breach of this Agreement.

(g) In case any provision of this Agreement shall be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as to most nearly retain the intent of the parties, and if such modification is not possible, such provision shall be severed from this Agreement, and in either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

(h) Nothing in this Agreement shall in any way restrict the obligations and rights of any party under the Purchase Agreement. No right, remedy or election given by any term of this Agreement shall be deemed exclusive, but each shall be cumulative with all other rights, remedies and elections available at law or in equity.

(i) This Agreement and the documents referred to herein express the entire agreement and understandings among the parties with respect to the subject matter hereof, and all promises, representations, understandings, arrangements and prior agreements are merged herein and therein and superseded hereby and thereby.

(j) The term "including" shall mean "including without limitation." The term "person" shall be broadly construed to mean any individual, trust, partnership, corporation, limited liability company, organization, joint venture or any other entity or body of any nature. The Article, Section and other headings contained herein are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

(k) Buyer and Parent shall each deliver to the Escrow Agent an Internal Revenue Service Form W-9.

IN WITNESS WHEREOF, the parties hereby have duly executed and delivered this Agreement as of the date first above written.

ALLEGIANCE HEALTHCARE CORPORATION

By: _____
Name:
Title:

THE FIRST NATIONAL BANK OF CHICAGO

By: _____
Name:
Title:

ISOLYSER COMPANY, INC.

By: _____
Name:
Title:

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FOR IMMEDIATE RELEASE

Contact: Stacy Seiders
Isolyser Company, Inc.
(770) 806-9898
Donna J. Gaidamak
Allegiance Corporation
(847) 578-4434

ISOLYSER ANNOUNCES COMPLETION OF ITS SALE OF MEDSURG INDUSTRIES AND LICENSE OF OREX TECHNOLOGY TO ALLEGIANCE

NORCROSS, Georgia, July 13, 1999 - Isolyser Company, Inc. (Nasdaq: OREX) today announced the completion of the sale of the assets of its MedSurg Industries, Inc. subsidiary to a unit of Allegiance Healthcare Corporation, a subsidiary of Allegiance Corporation, and the grant to Allegiance of a worldwide exclusive license to convert, use and sell products made with Isolyser's proprietary degradable materials known as OREX(R) and Enviroguard(TM) for distribution in the healthcare marketplace for a total of $31.3 million.

Under the terms of the three-year License Agreement, Isolyser will be the sole supplier to Allegiance of dissolvable material made from PVA, the raw material used to manufacture Isolyser's OREX(R) and Enviroguard(TM) products, for use in the health care field. Allegiance is committed to purchase a certain quantity of Enviroguard(TM) fabric. Also under the Agreement, Allegiance will pay Isolyser a royalty equal to a percentage of the net sales price of product sold by Allegiance to customers who utilize the product's unique dissolution technology.

Migo Nalbantyan, president and chief executive officer of Isolyser, stated, "We are very pleased with our agreement with Allegiance and are committed to serve our health care customers with many innovative new products. Also, as a result of our much improved financial condition, we are now better positioned to accelerate the strategic growth of our technology into other markets."

"Allegiance is delighted to add Isolyser's innovative OREX(R) and Enviroguard(TM) technology to our leading line of surgical apparel and supplies," said Mike Hudson, president of Allegiance's Convertors and Custom Sterile businesses. "We believe there is significant potential for a line of clinically superior single use medical products that are also environmentally friendly. The combination of Allegiance's Sales and Marketing skills coupled with Isolyser's Research and Development should result in increased demand for the Enviroguard(TM) family of products. We envision this product family to include: nonwoven drapes and apparel, textiles, injection-molded devices and plastic type film products. Our intent is to cover a large percentage of the disposable products used in the Operating Room, Labor and Delivery and Cath

Lab."

Both companies are finalizing a product introduction, marketing and manufacturing schedule related to the introduction of new products. It is expected that this process will be completed over the next several months.

Isolyser will use funds from the sale to eliminate the remaining balance of its revolving credit facility as well as provide additional operating funds and capital for investment in its technology.

MedSurg Industries, Inc. assembles and distributes sterile and non-sterile procedure trays and packs for hospitals and other healthcare institutions. Isolyser acquired MedSurg in 1993. Isolyser's OREX division, OREX Technologies International (OTI), possesses an extensive knowledge of polyvinyl alcohol polymer and its associated properties and specializes in the development and commercialization of materials that are engineered with characteristics that facilitate their disposal (bio-cycle). OTI also has a range of capabilities in the area of point-of-use waste treatment and disposal.

Based in McGaw Park, Illinois, Allegiance Corporation (www.allegiance.net), is America's leading provider of health care products and cost management services needed by hospitals, laboratories and others in health care. Allegiance is a subsidiary of Cardinal Health, Inc. (NYSE: CAH), of Dublin, Ohio. Cardinal is a leading provider of services supporting health care.

This press release contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements may be significantly affected by certain risks and uncertainties described in the Company's annual report on Form 10-K and elsewhere, including without limitation, the risks described in Risk Factors in the Company's Annual Report on Form 10-K for the period ending December 31, 1998 under the captions "Risks of New Products," "Manufacturing and Supply Risks," "Protection of Technologies," "Competition," "Risks of Technological Obsolescence," "Reliance Upon Distributors," "Regulatory Risks," and "Product Liability," and risks associated with any failure of Isolyser to timely fulfill Allegiance's purchase orders and otherwise perform Isolyser's obligations under the license agreement. The Company's actual results could differ materially from such forward-looking statements.

Isolyser has developed and manufactures OREX(R) Degradables, a series of ecologically safe products made from a thermoplastic, hot water soluble polymer that can be configured into an array of products such as woven and nonwoven fabrics, film, thermoformed and extruded items. The Company believes that its products provide protection to people and the environment while providing cost-effective solutions to the problems associated with waste reduction and disposal. The Company also manufactures infection control products.

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