

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
SEC Accession No. [0000950137-99-000555](#)

([HTML Version](#) on [secdatabase.com](#))

### FILER

#### SABRATEK CORP

CIK: **1012480** | IRS No.: **363700639** | State of Incorp.: **DE** | Fiscal Year End: **1231**  
Type: **10-K** | Act: **34** | File No.: **000-24827** | Film No.: **99573934**  
SIC: **3845** Electromedical & electrotherapeutic apparatus

Mailing Address  
8111 NORTH ST LOUIS  
AVENUE  
SKOKIE IL 60076

Business Address  
8111 NORTH ST LOUIS  
AVENUE  
SKOKIE IL 60076  
8477202400

-----  
 UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549  
 -----

FORM 10-K  
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
 OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

COMMISSION FILE NUMBER 1-11831

SABRATEK CORPORATION  
 (Exact name of registrant as specified in its charter)

<TABLE>		
<S>	<C>	
DELAWARE		36-3700639
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
8111 NORTH ST. LOUIS AVENUE, SKOKIE, ILLINOIS		60076
(address of principal executive offices)		(Zip Code)
</TABLE>		

Registrant's telephone number, including area code: (847) 720-2400

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

(TITLE OF CLASS)  
 Common Stock, \$.01 Par Value

(TITLE OF CLASS)  
 Series B Preferred Stock Purchase Rights

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the common stock, par value \$.01 per share, held by non-affiliates based upon the reported last sale price of the common stock on March 17, 1999 was approximately \$132,944,333.25.

As of March 17, 1999, there were 9,875,584 shares of common stock, par value \$.01 per share, outstanding.

The Index to Exhibits appears on page 47.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's definitive 1999 Proxy Statement which will be filed pursuant to Regulation 14A is incorporated by reference into Part III of this Annual Report on Form 10-K.

SABRATEK CORPORATION  
 1998 FORM 10-K ANNUAL REPORT  
 TABLE OF CONTENTS

<TABLE>  
 <CAPTION>

PAGE

<S>	<C>	----	<C>
	PART I		
Item 1.	Business.....	1	
Item 2.	Properties.....	16	
Item 3.	Legal Proceedings.....	17	
Item 4.	Submission of Matters to a Vote of Security Holders.....	17	
	PART II		
Item 5.	Market for the Registrant's Common Equity and Related Stockholder Matters.....	18	
Item 6.	Selected Financial Data.....	19	
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	20	
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.....	25	
Item 8.	Financial Statements and Supplementary Data.....	26	
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	44	
	PART III		
Item 10.	Directors and Executive Officers of the Registrant.....	44	
Item 11.	Executive Compensation.....	44	
Item 12.	Security Ownership of Certain Beneficial Owners and Management.....	44	
Item 13.	Certain Relationships and Related Transactions.....	44	
	PART IV		
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	45	
</TABLE>			

The following trademarks and service marks appear in this Annual Report: SABRATEK(R) and its logo, AutoRamp(R), HOMERUN(R), Seamless Delivery System(R), PumpMaster(R), MediVIEW(R), Sabraset(R), SabSil(R), TCS Total Compliance System(TM), VHR Virtual Hospital Room(TM), Communicator(TM), Sabratek(TM) (without logo), 6060 Epidural(TM) and Epidural(TM). Sabratek also has received a foreign trademark registration for the name SABRATEK(R) and its logo in Japan. Unitron Medical Communications, Inc. has filed a trademark application for the term MOON(TM). Stat-Site(R) is a registered trademark of GDS Technology, Inc.

i

3

## PART I

### ITEM 1. BUSINESS

#### INTRODUCTION

Sabratek develops, produces and markets technologically-advanced, user-friendly and cost-effective therapeutic and diagnostic medical systems designed specifically to meet the unique needs of the alternate-site health care market. Sabratek's multi-therapy infusion and other devices and data management systems incorporate advanced communications technology which is designed to reduce provider operating costs while maintaining the integrity and quality of care. Sabratek's proprietary health care information system provides remote programming as well as real-time diagnostic and therapeutic data capture capabilities, allowing caregivers to monitor patient compliance more effectively and allowing providers to develop outcome analyses and optimal clinical protocols. Sabratek has designed its integrated hardware and software system to permit health care providers to achieve cost-effective movement of patients along the continuum of alternate-site health care settings.

Sabratek has begun to expand its product line beyond infusion therapy to become a leading developer and marketer of a variety of interactive therapeutic and diagnostic medical systems for the delivery of high-quality, cost-effective health care in alternate sites. Sabratek believes that its current and future products and related software facilitate the ability of alternate-site providers to create a "virtual" hospital room, thereby affording the delivery of a wide range of care previously provided primarily in an acute-care setting. The majority of Sabratek's revenues have historically been derived from the sale of its multi-therapy infusion pumps and related disposable supplies. Since August, 1996, Sabratek has commercially introduced MediVIEW, PumpMaster, pre-filled saline and heparin flush syringe products which further Sabratek's strategy of creating a virtual hospital room. Sabratek has also introduced StatSite, the point of care diagnostic testing device and related disposable test cards it licenses from GDS Technology, Inc., and the continuous, real-time monitoring and reporting software which is a component of MOON (Medically Oriented Operating Network) which Sabratek licenses from Unitron Medical Communications, Inc.

On November 24, 1998, Sabratek announced that it had suspended distribution of its Rocap pre-filled flush syringe product line. Sabratek also announced that it would submit new 510(k) applications to the United States Food and Drug Administration (the "FDA") for the Rocap pre-filled flush syringe products and that new management was in place at Rocap for both operations and regulatory affairs. Sabratek has submitted the new 510(k) applications, but they have not been cleared by the FDA to date. Sabratek will not be able to resume distribution of its Rocap product line until its 510(k) applications are cleared and other issues relating to its production processes previously noted by the FDA are resolved. Sabratek can give no assurances as to when the FDA clearances and resolution will be obtained. Although Sabratek continues to believe that it will be allowed to resume distribution of its Rocap product line, in the event that there are substantial delays in obtaining, or it is unable to obtain, the required FDA clearances and resolution, Sabratek could incur a material write down of assets and its future profitability could be materially affected.

In August, 1998, Sabratek designated the relative rights and preferences of a new Class of Series B Preferred Stock and adopted a Shareholder Rights Plan. Pursuant to such Plan, Sabratek's Board of Directors declared a dividend of one right for each share of Sabratek's common stock outstanding on September 4, 1998. Each right gives the holder thereof the opportunity to purchase one one-hundredth of one share of Sabratek's new authorized Series B Preferred Stock at a price of \$150 (as adjusted from time to time) upon the occurrences of events specified in the Plan. The Plan can be rescinded at the discretion of Sabratek's Board of Directors.

Sabratek was served with a complaint on January 27, 1999, alleging that Sabratek and seven officers and former officers violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Securities Exchange Act of 1934, as more fully described in Item 3 "Legal Proceedings."

1

4

In April, 1998, Sabratek sold in an institutional private placement, 6% convertible Notes in an aggregate principal amount of \$85,000,000, as more fully described in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### CHANGING HEALTH CARE ENVIRONMENT

The increase in health care costs at a rate significantly higher than that of overall inflation has caused managed care companies, indemnity insurers, employers, governmental agencies and other payors to employ a variety of strategies designed to contain health care expenditures. These cost-containment strategies aim to reduce the cost of health care services, as well as the amount of health care services utilized. Payors are shifting away from traditional fee-for-service based payment plans and moving towards managed care plans in an effort to deliver quality health care services more cost-effectively. In particular, cost-containment measures, including increased utilization review and case management, have caused many health care providers to move patients from the higher-cost hospital setting to lower-cost alternate sites.

The alternate-site health care industry, which includes the delivery of skilled nursing services, intravenous infusion, respiratory therapy, physical therapy and pharmaceutical therapies in the home, long-term care facilities, physicians' offices and outpatient centers, has grown significantly during the past decade. According to a report entitled "National Health Expenditure Projections, 1994-2005" published in the summer of 1995 by Health Care Finance Administration of the United States Department of Health and Human Services ("HCFA"), total expenditures for home health care, which constitutes a significant component of alternate-site health care, increased from approximately \$11.1 billion in 1990 to approximately \$24.2 billion in 1994 and is projected to reach \$45.9 billion in 2000. Since the early 1980s, the provision of acute and chronic care for serious illnesses outside the hospital has been recognized as a critical component of health care cost containment because the delivery of various therapies in an alternate-site setting is more cost-effective than the delivery of these same therapies in an acute-care hospital setting. Sabratek believes that the alternate-site health care industry will continue to benefit from cost-containment measures which governmental and private payors have employed to reduce hospital admissions and length of stays in hospitals. Sabratek believes that these cost-containment measures will continue the increase in the use of alternate-site health care due to its significantly lower cost when compared to similar care provided in traditional acute health care settings. In addition to cost savings, the alternate-site health care industry should continue to benefit from advances in medical technology which have facilitated the provision of sophisticated care outside the hospital. Many disease states, including pulmonary diseases, neurological conditions, infectious diseases, digestive disorders, AIDS-related symptoms,

various forms of cancer and related medical conditions including pain and nausea, are now being treated in alternate-site settings, including the home. Growth in alternate-site health care has also been facilitated by the increased acceptance of alternate-site health care by physicians, caregivers and patients. The American Medical Association Council on Scientific Affairs and the American Medical Association Council on Medical Education have recommended that training in the principles and practice of home health care be incorporated into the undergraduate, graduate and continuing education of physicians. Also contributing to the growth of the alternate-site health care industry is the increase in the over-65 population, which has a higher incidence of illness and disability.

A significant component of alternate-site health care is infusion therapy, which involves the administration of fluid intravenously at a regulated rate and volume. Alternate-site infusion therapy has historically been the fastest growing segment of the alternate-site health care market. Infusion therapy is used in a wide range of applications including nutrition therapy, pain management, delivery of antibiotics, pregnancy and obstetrical therapies, chemotherapy, cardiovascular therapy and immunosuppressive therapy. These therapies generally require the use of specialized infusion pumps to deliver precise dosages of fluids including nutrients, parenteral solutions, anti-infectives, chemotherapeutic agents, narcotic analgesics and a variety of other drugs.

Due to the shift by managed care payors toward capitated payment arrangements, providers of infusion therapy are being forced to reduce costs to maintain profitability, while at the same time maintaining the quality of care. The costs associated with providing infusion therapy are composed of three general components: capital equipment, supplies and labor. Traditionally, providers of infusion therapy needed to purchase multiple types of infusion pumps and related back-up inventory because most pumps delivered only

2

5

one type of therapy. The need to purchase several single therapy pumps also resulted in increased labor training costs because of the need to train caregivers in multiple programming protocols. The delivery of infusion therapy requires a substantial amount of non-clinical nursing time. We believe that reducing the labor costs associated with delivering infusion therapy is critical for alternate-site health care providers to achieve operating efficiencies. According to a 1992 study of the home infusion therapy industry published by The National Alliance for Infusion Therapy (the "NAIT Study"), nurses spent an average of 3.1 hours per home visit, of which approximately 64 minutes, or 35%, was spent traveling to and from the patient's home, 56 minutes, or 30%, was spent documenting clinical observations as well as coordinating care and the balance was spent on tasks performed during personal contact with the patient, including documentation. The NAIT Study also shows that training is required for patients not only at the start of therapy but also over time as the therapy of an individual patient changes. The NAIT Study indicates that during these home visits, a significant amount of nursing time is required to ensure that patients are complying with the prescribed therapy. Compliance is important since it can prevent patients from having to re-enter the costly hospital setting thereby generating unnecessary incremental expenses and health risks as a result of failure to adhere to their prescribed therapies, whether intentionally or unintentionally. We believe that products and technology which reduce the cost of providing infusion therapy, especially the labor component, will be attractive to health care payors and providers in general and providers of infusion therapy in particular.

#### PRODUCTS AND SERVICES

SABRATEK'S SEAMLESS DELIVERY SYSTEM. Sabratek's software-based infusion devices, related interactive information system and pump testing device are designed to provide both health care professionals and patients with ease of use and a smooth transition throughout the health care delivery spectrum. Sabratek's SEAMLESS DELIVERY SYSTEM product design is Sabratek's strategic response to the need to achieve cost-effective movement of patients from a hospital setting to an alternate-site setting, and among the various stages in alternate-site care, from sub-acute to home care, with maximum ease of transition. The SEAMLESS DELIVERY SYSTEM maximizes the similarities between Sabratek's stationary and ambulatory infusion devices and is intended to allow both patients and health care providers to use both types of infusion devices interchangeably, as the specific setting or therapy dictates, and with greater ease. This ability reduces the amount of time health care professionals must spend training on multiple operating systems as well as administering and monitoring therapies. In addition, Sabratek's infusion devices have the flexibility to provide multiple therapies which allows providers to minimize their equipment inventories. Sabratek's infusion devices intravenously deliver therapeutic agents to address treatments for a wide variety of conditions, including, among others, antibiotic therapy for viral or bacterial infections, chemotherapy for cancer, pain management for chronic pain, clotting agents for hemophilia and various

therapies for pregnancy and obstetrics. Sabratek has received 510(k) approval for a 4040 Stationary Pump designed for the acute-care setting.

The following table summarizes information with respect to Sabratek's products and services:

PRODUCT -----	DESCRIPTION -----	STATUS -----
<S>	<C>	<C>
INFUSION PUMPS		
3030 Stationary Pump.....	Stationary, multi-therapy infusion device	Commercially available since 1992 (1) (2) (3)
6060 Ambulatory Pump.....	Ambulatory, multi-therapy infusion device	Commercially available since 1995 (1) (2) (4)

</TABLE>

3

6

PRODUCT -----	DESCRIPTION -----	STATUS -----
<S>	<C>	<C>
INFUSION SUPPLIES		
3030 Infusion Sets.....	Non-proprietary, disposable tubing sets for use with 3030 Stationary Pump	Commercially available since 1992
6060 Infusion Sets.....	Proprietary, disposable tubing sets for use with 6060 Ambulatory Pump	Commercially available since 1995 (1) (2) (3)
Pre-filled Syringe Products.....	Pre-filled I.V. tubing flush syringes	Commercially available since 1996 (2); commercial distribution has been halted pending receipt of 510(k) clearance
INTERACTIVE PROGRAMMING AND MONITORING SOFTWARE		
MediVIEW.....	Proprietary, PC-based software that allows remote and real-time programming, monitoring, data capture and reporting	Commercially available since 1996
AUTOMATIC DIAGNOSTIC TESTING DEVICE		
PumpMaster.....	Proprietary, portable, automatic diagnostic device for the testing of Sabratek infusion pumps	Commercially available since 1996 (2)
MONITORING DEVICES		
WHOLE BLOOD MONITOR		
Stat-Site System and related disposables.....	Provides point-of-care results from a single drop of blood	Licensed from GDS; Commercially available since 1992
VITAL SIGNS MONITOR		
APM (Ambulatory Patient Monitor) 2000.....	Ambulatory instrument that measures heart and respiratory rates, temperature, and pulse oxymetry	510(k) clearance received; date of commercial distribution not yet determined
BASE STATION COMMUNICATIONS DEVICE		
VHR Communicator.....	Smart communications device which (a) receives and interprets data from IV pumps, vital signs monitors, blood-testing devices and other devices and (b) transmits the patient data to a remote database which is accessible by the patient's health care providers	510(k) clearance received; date of commercial distribution not yet determined

</TABLE>

4

7

<TABLE>

<CAPTION>		
PRODUCT -----	DESCRIPTION -----	STATUS -----
<S>	<C>	<C>
INFORMATION SYSTEMS		
CLINICAL PATIENT INFORMATION MANAGEMENT SYSTEM		
MOON (Medically Oriented Operating Network).....	A wide area network that electronically links multiple health care locations, creating secure Electronic Medical Records through its intranet	Licensed from Unitron
HealthMagic, Inc.....	Developer of innovative information management tools that feature intranet technology which allows medical staff personnel access to key medical information regardless of their location through the use of (a) a web-based application system; (b) a system designed to assist in the development of personalized patient care plans and on-line patient educational materials; and (c) a self-managed healthcare record which enables consumers to track and input key medical information	Acquired rights to HealthMagic's software applications and related documentation in November, 1998
CONSULTING AND UTILIZATION REVIEW SERVICES		
CMS Healthcare, Inc.....	Physician-based utilization review and utilization management services, primarily for the behavioral health sector and consulting services to assist health plans assess benefit coverages, fee schedules and network access	Acquired in July, 1998

</TABLE>

-----

- (1) Patent(s) issued in the United States.
- (2) United States and/or foreign patents pending.
- (3) Foreign patent issued.
- (4) U.S. patent allowed.

SABRATEK 3030 -- STATIONARY MULTI-THERAPY INFUSION PUMP. Sabratek's 3030 Stationary Pump is an electromechanical, volumetric infusion device that is able to deliver a wide variety of infusion therapies including, among others, chemotherapy, antibiotics, circadian rhythms and total parenteral nutrition under three standard and one custom delivery modes. The 3030 Stationary Pump incorporates multiple language capabilities, remote communications and pre-programming capabilities, a state-of-the-art ergonomic design and a relatively easy-to-learn programming format. The 3030 Stationary Pump operates with leading brands of disposable tubing as well as Sabratek's own line of non-proprietary disposable tubing. The 3030 Stationary Pump has the ability to work in conjunction with the MediVIEW software.

SABRATEK 6060/HOMERUN -- AMBULATORY MULTI-THERAPY INFUSION PUMP. Sabratek's 6060 Ambulatory Pump weighs approximately 13 ounces and can be worn discreetly by a patient. The 6060 Ambulatory Pump was designed as a complementary product to the 3030 Stationary Pump and, when combined with the use of

the 3030 Stationary Pump, provides a seamless transition between the bed and an ambulatory state, or vice versa, with minimal additional training. The 6060 Ambulatory Pump has delivery capabilities and a programming format that are similar to the 3030 Stationary Pump, with the addition of a pre-programmed capability to deliver pain management infusion therapy. The 6060 Ambulatory Pump also has the ability to work in conjunction with the MediVIEW software and utilizes a proprietary disposable tubing set.

DISPOSABLE INFUSION SUPPLIES. Sabratek sells non-proprietary disposable tubing sets for use with the 3030 Stationary Pump and proprietary disposable tubing sets for use exclusively with the 6060 Ambulatory Pump. Through its Rocap operation, Sabratek offers pre-filled syringe products. The pre-filled syringe products serve as a flush for the infusion therapy tubes.

MEDIVIEW -- REMOTE PROGRAMMING, MONITORING AND DATA CAPTURE AND REPORTING SOFTWARE SYSTEM. MediVIEW is a proprietary software system designed to allow providers to program and monitor Sabratek's infusion pumps and capture data for reporting and clinical purposes from remote locations over standard telephone lines. Sabratek has designed MediVIEW to enable alternate-site health care providers using the 3030 Stationary Pump and 6060 Ambulatory Pump combined with MediVIEW to: (a) remotely monitor and program Sabratek's pumps on a real-time basis, (b) receive instantaneous notification of alarm activation and immediately respond from the provider's physical location, (c) automatically record and "package" data regarding the outcomes of actual therapy courses for specific case management and clinical as well as administrative/reimbursement purposes, and (d) develop a proprietary clinical protocol and outcomes database useful to managed care providers. In addition, patients who receive therapy on Sabratek's infusion products should derive greater comfort because their providers will be able to monitor their therapies on a real-time basis. The first release of MediVIEW became commercially available in the third quarter of 1996.

PUMPMaster -- PORTABLE, AUTOMATIC DIAGNOSTIC DEVICE FOR THE TESTING OF SABRATEK INFUSION PUMPS. The PumpMaster is a portable device designed to enable providers to perform on-site diagnostic tests on Sabratek's infusion devices. Suggested standards adopted by the Joint Commission for the Accreditation of Healthcare Organizations ("JCAHO"), an industry group which promulgates standards relating to the provision of alternate-site health care, require the performance of every infusion pump to be re-certified on the earlier of the date on which the pump is provided to a new patient for their use or the date which is 12 months from the date of the last certification. Sabratek believes that it is not cost-efficient for providers to maintain in-house bio-medical engineering resources on a branch level to perform pump re-certification. Instead, providers typically ship their pumps for remote-site testing and, as a result, are required to maintain costly back-up pump inventory. The PumpMaster is intended to obviate incremental capital expenditure outlays as well as eliminate the cost of outside infusion pump testing. The PumpMaster is designed to conduct automatically, in approximately ten minutes, all tests typically performed as part of JCAHO re-certification. PumpMaster became commercially available in the fourth quarter of 1996.

#### MONITORING DEVICES

##### WHOLE BLOOD MONITORING SYSTEM

STAT-SITE SYSTEM. In August, 1997, Sabratek entered into a licensing agreement with GDS Technology, Inc., a privately held company which has developed the Stat-Site System. (See "Strategic Partnerships" for more detail on Sabratek's relationship with GDS). The Stat-Site System is a portable, hand-held, multi-analyte system which provides accurate and immediate point-of-care diagnostic blood testing. Designed to be simple and user friendly, the Stat-Site System is intended to be used by patients without assistance from their health care professionals. The Stat-Site System is composed of a hand-held reflectance photometer and dry reagent test cards for different analytes/tests. To operate, a patient loads the appropriate test card into the hand-held Stat-Site analyzer and applies a drop of whole blood directly to the card. The patented, multi-layered membrane automatically separates blood cells from the whole blood sample and delivers immediate, laboratory quality, plasma-equivalent results to the patient within two to three minutes permitting immediate initiation of appropriate therapy. This system represents an alternative to traditional laboratories, which may take hours or even days to process the tests, for home healthcare, as well as physician offices, hospital emergency rooms and intensive care units, outpatient clinics and other remote healthcare facilities. In addition

to the benefits associated with speed and convenience, another advantage of the Stat-Site System is that it is the only point of care system that allows multiple specialized quantitative tests focused on measuring a single blood level. Competitive systems either (a) require more comprehensive testing consistent with a complete blood work-up or (b) allow single testing, but only on a qualitative basis.

The Stat-Site System currently has 510(k) approved tests commercially available in the US for blood ketone and blood glucose, for diabetes; hemoglobin, for testing anemia; and acetaminophen, for detecting acetaminophen overdose which may lead to permanent liver damage. One additional test is



currently marketed internationally for bilirubin, for the diagnosis and monitoring of neonatal hyperbilirubinemia. The Stat-Site System utilizes a unique blood separation technology which enables the expeditious development of new tests, generally 6-9 months versus 18-36 months for competitive systems. Test cards are disposable and designed for a safe, individual, one-time use. The system has been commercially available since 1992. The system has a communications port which will allow connectivity to Sabratek's VHR Communicator base station. This will enable results to be transmitted electronically to providers for immediate review to adjust treatment or to address a potentially acute episode. The information will also be stored in the patient's electronic medical record through the MOON system. Sabratek can give no assurance as to the extent to which Stat-Site will gain market acceptance.

#### VITAL SIGNS MONITOR

APM (AMBULATORY PATIENT MONITOR) 2000. Sabratek's vital signs monitor monitors a patient's core body temperature, heart rate, pulse, pulse oximetry, respiratory rate, among other vital signs. Like Sabratek's infusion pumps and other monitoring devices, the APM 2000 is small, cost-effective, user-friendly and has remote telecommunications capabilities. Sabratek received 510(k) approval for the APM 2000 in 1998. The APM 2000 has a communications port which allows connectivity to Sabratek's VHR Communicator base station. Like the Stat-Site system, this enables results to be transmitted electronically to providers for immediate review to adjust treatment or to address a potentially acute episode. The information can also be stored in the patient's electronic medical record through the MOON system. Because Sabratek has not begun actively marketing this product, Sabratek cannot predict the extent to which this product will contribute to revenues or income.

#### BASE STATION COMMUNICATIONS DEVICE

VHR (VIRTUAL HOSPITAL ROOM) COMMUNICATOR. The base station is an interactive, miniature computer with eight communications ports for a patient/health care provider to plug in the various devices needed to monitor a patient's health. The VHR Communicator is a "smart" device with intelligence which enables it to interpret data. For example, the device will be able to assess whether the received patient data needs to be forwarded to the care team or simply stored for future use. Additionally, the base station can notify caregivers of episodes of non-compliance. In addition to receiving quantitative physiological data, the device has the capability to obtain and store qualitative "quality-of-life" feedback from patients. This is accomplished through the device's screen and keypad which enables interactive patient functions. Sabratek received 510(k) approval for the VHR Communicator in 1998. Because Sabratek has not begun actively marketing this product, Sabratek cannot predict the extent to which this product will contribute to revenues or income.

#### INFORMATION SYSTEMS

##### CLINICAL PATIENT MANAGEMENT SYSTEM

MOON (MEDICALLY ORIENTED OPERATING NETWORK). In July 1997, Sabratek entered into a licensing agreement with Unitron Medical Communications, Inc. doing business as MOON Communications, a privately held company which has developed MOON, a proprietary clinical patient information management network. (See "Strategic Partnerships" for more detail on Sabratek's relationship with Unitron). MOON provides for continuous, real-time monitoring and reporting on clinical patient information from any site, including the patient's home.

7

10

Unlike in an acute care setting, patients in the alternate site health care environment are often not in close physical proximity to their health care providers. As a result, patient information from the point of care is often communicated to the health care provider in a less timely and less complete manner. In addition, physicians generally are less able to monitor the patient, including compliance with prescribed therapy and the management of care delivered by other providers. The goal of MOON is to enable health care providers to more effectively treat higher acuity patients in an alternate site health care setting by maintaining the provider's ability to direct the patient's care, monitor compliance with prescribed therapies and have access to timely clinical information. MOON is designed to enable the provider to reduce the need for on-site visits without compromising the quality of patient care.

MOON allows caregivers to input patient information into a data repository which is immediately available to other providers, including physicians. Sabratek's interactive medical devices will transmit patient information directly to MOON without human interaction. The immediate availability of patient information is a significant improvement over the current paper-based reporting system which often lags two or more weeks behind the initial collection of the information. MOON allows providers immediate access to patient

information. Additionally, the individual health care provider tracking information is useful to payors and the agencies/companies managing the provider. Sabratek intends to combine its proprietary MediVIEW medical device management and telemedicine software with MOON. MOON is currently in operation in the Tampa Bay market, with a market-by-market rollout expected to be launched in 1999. Because Sabratek has not begun actively marketing this product, Sabratek cannot predict the extent to which this product will contribute to revenues or income.

HEALTHMAGIC, INC. Sabratek entered into a Software License and Marketing Agreement with HealthMagic, Inc. in November, 1998. HealthMagic is a developer of innovative information management tools that feature intranet technology which provides medical staff personnel access to key medical information regardless of their location. HealthMagic has developed several software applications including: (a) a web-based application that enables homecare companies to mass distribute all of their policies, procedures and legal requirements; (b) a system designed for individual homecare agencies or a large network of agencies, assisting in the development of personalized patient care plans and on-line patient educational materials and (c) a self-managed healthcare record which enables consumers to track, input key information and manage all of their healthcare interactions.

#### CONSULTING AND UTILIZATION REVIEW SERVICES

CMS HEALTHCARE, INC. Sabratek acquired CMS Healthcare, Inc. in July 1998. CMS Healthcare is a consulting company that focuses on the provision of utilization review and utilization management services, primarily for the behavioral health sector. These utilization review services include the review of plans of care, peer-to-peer review, and the review of care provided for the determination of medical necessity as part of the claim approval process.

CMS Healthcare also provides traditional consulting services particularly in assisting health plans to assess benefit coverages, fee schedules and network access. These consulting services have primarily focused on behavioral health although CMS Healthcare is expanding its service offering to other disciplines. CMS Healthcare also provides quality review services which assist health plans in assessing and documenting quality of care, including patient and provider satisfaction. These reviews are conducted using focus groups and data collection and review.

CMS Healthcare's customer base totals approximately 35 clients. The services are provided on a fee for service basis although Sabratek has been exploring opportunities to participate in capitated agreements.

#### STRATEGIC PARTNERSHIPS

UNITRON MEDICAL COMMUNICATIONS, INC. DOING BUSINESS AS MOON COMMUNICATIONS. In July, 1997, Sabratek entered into a licensing agreement with Unitron Medical Communications, Inc. doing business as MOON Communications, a privately held company which has developed MOON, a proprietary clinical patient information management network which is more fully described in the Information Systems section of

8

11

this Business section. Under the terms of this agreement, Sabratek has paid Unitron \$7 million for a 15-year technology license for use of the continuous, real-time monitoring and reporting software which is a component of MOON. Sabratek also entered into an option agreement with MOON Communications stockholders which, as renegotiated in January, 1999, gives Sabratek the right to purchase MOON Communications for approximately \$14.8 million on or before July 15, 1999. Under some circumstances, MOON Communications stockholders have the right to induce the purchase after July 15, 1999. Further, in January 1998, Sabratek entered into an Exclusive Sales and Marketing Agreement with Unitron, whereby Sabratek acquired certain rights to access Unitron's customer database in exchange for the payment of an aggregate of \$2.7 million by Sabratek over the course of 1998. In addition, in October, 1998, Sabratek entered into a Standby Senior Credit Facility with MOON whereby Sabratek, at its sole discretion, may lend up to \$10 million at an interest rate of 8% per annum.

GDS. In August, 1997, Sabratek entered into a supply and distribution agreement with GDS Technology, Inc., a privately held medical device company. Under the terms of this agreement, as amended, Sabratek has paid GDS \$6.5 million for the 10-year exclusive rights to diagnostic products, including the GDS Stat-Site point of care diagnostic testing device and related disposable tests for use in the alternate site health care market. Sabratek also entered into an option agreement with the GDS stockholders which gives Sabratek the right to purchase the assets or the outstanding common stock of GDS for approximately \$5 million based on 1998 operating results of GDS. The GDS stockholders have the right, exercisable no earlier than the second quarter of 1999, to require Sabratek to purchase their shares of GDS. GDS manufactures bulk

and specific enzymes and reagents for the diagnostic testing industry, as well as Stat-Site, a unique test system for the point of care market. GDS has 510(k) approval for its Stat-Site device and a limited number of tests. The Stat-Site system provides immediate availability of critical information which can be used for diagnosis or monitoring the efficacy of a patient's drug therapy. For numerous disease states, this information is important to determine the regimen of care.

Sabratek intends to integrate the GDS Stat-Site system and the data that it provides with its other medical devices as part of the virtual hospital room to enhance its capabilities to serve the alternate-site health care market.

COLLABORATIONS IN HEALTHCARE, LLC. Collaborations in Healthcare, LLC provides consulting services for supply chain management for integrated delivery networks. In November, 1998, Sabratek entered into a Standby Senior Credit Facility, which matures on November 23, 2001, with Collaborations in Healthcare, LLC whereby Sabratek may lend up to \$4 million at an interest rate of 8% per annum. The parties also entered into a Unit Option Agreement whereby Sabratek will have a five year option to purchase Collaborations in Healthcare, LLC on or before November 23, 2003. The purchase price under the Unit Option Agreement will be up to \$4 million plus an earnout based upon a multiple of earnings of Collaborations in Healthcare, LLC for the period between July 1999 and December 1999, with a maximum earnout of \$15 million.

HEALTHMAGIC, INC. In November, 1998, Sabratek entered into a Software License and Marketing Agreement with HealthMagic, Inc., a developer of innovative management tools that feature intranet technology, which provides medical staff access to key medical information regardless of their location. Under the terms of the Agreement, Sabratek has paid a license fee of \$10 million for the exclusive rights of certain software applications and related documentation. The Agreement has a stated term of 99 years, however, the license fee will be amortized over the economic life of the software. In addition, Sabratek received a Stock Purchase Warrant from HealthMagic for 448,057 shares, representing 11.11% of the issued and outstanding common stock of HealthMagic, at an exercise price of \$11.15. The warrant expires November 18, 2005.

#### ACQUISITIONS

CMS HEALTHCARE. In July 1998, Sabratek purchased all of the outstanding common stock of CMS Healthcare, which provides utilization review and utilization management services, for \$160,000 in cash. In addition, the stockholders of CMS Healthcare are entitled to an earnout based upon a multiple of earnings of CMS Healthcare for the period between July 1999 and December 1999.

#### SALES AND MARKETING

Sabratek sells its products to a diverse group of customers in the alternate-site health care industry including sub-acute skilled nursing care facilities, pharmacy providers, home health care providers, physicians' offices, clinics, surgery centers and long-term care facilities. This group of customers ranges in size from national and regional chains to local independent operators. Sabratek's products are also sold to hospitals, particularly for pain management and I.V. line flushing. Key decision makers include nursing, pharmacy, purchasing and bio-medical departments, as well as physicians.

As of December 31, 1998, Sabratek's domestic sales force consisted of 38 direct sales professionals, 14 clinical support staff members and 3 full-time sales consultants who work closely with a network of domestic distributors each of whom covers an exclusive geographic territory. In limited geographic areas, the distributors are directly involved in sales and implementation; in others, the distributors act as support to the new client implementation process. Sabratek's distributors have been selected for their experience in and focus on the infusion therapy market, coverage of specific geographical areas, product sales support and regional dominance. Sabratek's sales management team trains the sales personnel of each of the distributors and provides them with all product information and other relevant field literature. In addition, Sabratek's direct sales representatives sell and coordinate and manage national account activity. Sabratek's marketing and sales efforts are supported by telemarketing, direct mailing, product and clinical inservicing, advertising in trade journals, new product literature and attendance at trade shows. Sabratek believes that its existing sales force and distribution network provide the necessary infrastructure to market its current products and those under development.

Sabratek has also entered into distribution agreements with distributors in South America, Europe, the Middle East, Asia and Africa. For the year ended December 31, 1998, international sales accounted for approximately 4% of Sabratek's total sales. For the year ended December 31, 1997, international

sales accounted for approximately 3% of Sabratek's total sales. For the year ended December 31, 1996, international sales accounted for approximately 9% of Sabratek's total sales. Sabratek perceives the international marketplace as a potential area for future growth. Sabratek has distribution agreements in Japan, Germany, France and the U.K., which it believes are among the largest international markets for infusion systems. Sabratek has received regulatory approval in Japan and currently markets there. Sabratek commenced marketing efforts in EEC countries in July 1998 upon receipt of regulatory approval. Currently, all of Sabratek's international sales are invoiced and paid in U.S. dollars.

Sabratek has enhanced its domestic sales effort through an affiliation with Americorp Financial, Inc. to provide leasing services to Sabratek's domestic customers. Americorp has licensed the name "Sabratek Credit Corporation" from Sabratek and offers financing for the acquisition of Sabratek products under both capital and operating leases. However, Sabratek can give no assurances that the existing sales force will be adequate to market an expanded product line.

#### RESEARCH AND DEVELOPMENT

Sabratek is committed to continued product innovation. For the year ended December 31, 1998, Sabratek invested approximately \$2.7 million in research and development. For the year ended December 31, 1997, Sabratek invested approximately \$1.8 million in research and development. For the year ended December 31, 1996, Sabratek invested approximately \$1.0 million in research and development. Sabratek's research and development effort is supported by a staff of 18 electrical, mechanical, software and chemical engineers who have extensive experience in the design and development of electromechanical infusion therapy devices, other medical instrumentation and software. Sabratek's engineering team closely coordinates its design activities with Sabratek's sales and marketing team. This group solicits extensive pre-design focus group input from constituencies that use or are impacted by the use of Sabratek's products, but who may possess a host of different strategic, economic and other objectives.

Sabratek's research and development program is focused on both new product development and enhancements of existing products. Sabratek's product development efforts include advancements in infusion therapy, interactive software systems, vital signs monitoring, and device communications and integration.

10

13

Sabratek's product development strategy is based on developing product platforms that have the flexibility to be configured to respond to a variety of customer requirements. Sabratek's product enhancement efforts are based on the input received from customers after the initial introduction of its products and focus on addressing customers' needs in a more cost-effective and comprehensive way.

#### ASSEMBLY AND MANUFACTURING

Sabratek currently assembles all of its infusion devices at its facility in Skokie, Illinois in an effort to ensure production quality and control its costs. Sabratek outsources the manufacture of some sub-systems used in its infusion systems. In addition, disposable tubing sets sold by Sabratek are manufactured by contract manufacturers. Sabratek believes its mix of in-house assembly and contract manufacturing is the most cost-effective means of producing its products.

Sabratek's production process for its infusion devices consists of assembling major sub-systems as well as the assembly of both standard and custom components. The standard components can be obtained from a number of sources. The custom components are produced by both Sabratek as well as by sub-contractors and, in all cases, competitive back-up supply sources exist. Sabratek believes that, due to volume discounts, the unit cost of both standard and custom components will decrease as production volumes increase.

Disposable tubing sets are manufactured to Sabratek's specifications by third parties in a clean room environment under stringent quality control procedures covering assembly, storage and sterilization. Set production consists of the assembly of both standard and custom components. The plastic custom components are manufactured by a sub-contractor using molds supplied by Sabratek. Sabratek uses more than one manufacturer for the production of its disposable tubing sets.

Sabratek's Rocap operation manufactures pre-filled I.V. tubing flush syringes at its facilities in Woburn, Massachusetts and Orlando, Florida. Competitive back-up sources exist for all of the components used in the production of Rocap's products.

#### QUALITY ASSURANCE

Sabratek maintains a comprehensive quality assurance program. The quality assurance program begins with the components and other materials Sabratek purchases from vendors. Vendors are required to supply materials which meet stated specifications. Sabratek monitors vendors' compliance with the stated specifications through a program of on-site surveys, audits and product testing. Sabratek also employs quality assurance procedures during its on-site manufacturing and assembly process in an effort to ensure that finished products meet the standards set by Sabratek. All finished products are tested by Sabratek's separate quality assurance department to ensure that Sabratek maintains its quality standards. Finally, Sabratek maintains a post-sale performance monitoring program.

Sabratek provides its customers a standard one-year warranty on the 3030 Stationary Pump, the 6060 Ambulatory Pump and the PumpMaster. To provide further product support, Sabratek has established an in-house capability for repair, maintenance and upgrade of its products. The repair and maintenance function utilizes full-time technical personnel as well as on-going support from temporary and production personnel as required to service infusion devices. Sabratek believes the service and maintenance of its infusion devices require minimal manpower due to the modularity of the devices' sub-systems, sound quality control procedures and the service capabilities of distributors.

As part of its quality program, Sabratek provides its customers with extensive in-service and training in the use of its products. This is provided by both Sabratek's sales force and its distributors.

#### INTELLECTUAL PROPERTY

One United States patent and one Australian patent have been issued for the 3030 Stationary Pump. In addition, two foreign patents are pending for the 3030 Stationary Pump. For the 6060 Ambulatory Pump, eight United States patents have been issued. One United States and one German patent have been issued and one Japanese patent has been allowed for the 6060 Infusion Set and United States and foreign patents are

11

14

pending on this project. Sabratek also has United States and Foreign patents pending for PumpMaster. There are United States patents pending with respect to the pre-filled syringe products, the APM 2000, the VHR Communicator and MediVIEW. Sabratek also requires each of its employees, consultants and advisors to agree in writing to keep its proprietary information confidential and to assign all inventions relating to Sabratek's business to Sabratek. There can be no assurance that any unprotected information will not also be developed by others.

Sabratek has registered or applied to register the following trademarks: SABRATEK(R) and its logo, AutoRamp(R), HOMERUN(R), SEAMLESS DELIVERY SYSTEM(R), PumpMaster(R), MediVIEW(R), SabraSet(R), SabSil(R), TCS Total Compliance System(TM), VHR Virtual Hospital Room(TM), Communicator(TM), Sabratek(TM) (without logo), 6060 Epidural(TM) and Epidural(TM). Sabratek has also received a foreign trademark registration for the name SABRATEK(R) and its logo in Japan. Unitron has filed a trademark application for the term MOON(TM) which appears herein. Stat-Site(R), which appears herein, is a registered trademark of GDS Technology, Inc.

#### COMPETITION

Sabratek faces substantial competition. At the present time, Sabratek considers its primary competitors to be other marketers of infusion pumps. Sabratek believes there are several major competitors marketing infusion pump devices, including, but not limited to: Abbott Laboratories; Alaris Medical, Inc.; Baxter International Inc.; I-Flow Corp.; B. Braun/McGaw, Inc., an indirect subsidiary of B. Braun Melsungen AG; and SIMS Deltec, a unit of Smiths Industries Medical Systems.

Despite the greater size and market share of its competitors, Sabratek believes that its products compete favorably against the products offered by its competitors. Sabratek has designed its stationary and ambulatory pump products to offer cost efficient and convenient transferability of training/operational procedures and functions. Unlike manufacturers that offer only a stationary or an ambulatory pump, or offer both but whose products lack operational integration, Sabratek's SEAMLESS DELIVERY SYSTEM(R) product design provides health care providers with product standardization which Sabratek believes to be critical in achieving optimum operating efficiencies. Sabratek believes that its products also compete favorably with the products of larger, more established companies on the basis of other advanced product features.

#### REIMBURSEMENT

Sabratek's current products are generally purchased by health care

providers who are reimbursed by third-party payors, including indemnity insurance companies, managed care organizations and government agencies. These health care providers recover the cost of purchasing Sabratek's products through reimbursement for services provided using Sabratek's products. A recent trend is for providers to contract for services on a capitated basis. Under those contracts, providers receive a fixed fee for providing service to patients. In those situations, the providers' profit or loss on the contract is dependent upon managing its costs.

HCFA coordinates a system of reimbursement for outpatient hospital procedures, physician office procedures and devices used in conjunction with such procedures. Under this system, HCFA determines coverage eligibility, issues coverage instructions and assigns billing codes called the HCFA Common Procedures Coding System ("HCPCS") for these procedures and devices under Medicare and Medicaid. HCFA has established HCPCS billing codes for infusion devices. Moreover, the HCPCS system is referenced by most third-party payors, including Medicare and Medicaid, insurance companies and health maintenance organizations, thereby standardizing coverage identification and billing identification across a broad spectrum of payor plans. When the use of FDA-approved infusion devices is prescribed by a physician and determined to be reasonable and necessary in the treatment of illness, this use is generally reimbursable under Medicare and Medicaid. Reimbursement by other third-party payors is dependent upon the coverage provided under the applicable plan.

#### GOVERNMENT REGULATION

The medical devices and supplies manufactured and marketed by Sabratek are subject to regulation by the FDA and, in some instances, by state and foreign authorities. Pursuant to the Federal Food Drug and

12

15

Cosmetic Act ("FDCA") and the regulations promulgated thereunder, the FDA regulates the clinical testing, development, manufacture, packaging, labeling, distribution and promotion of medical devices and supplies.

The FDCA classifies medical devices intended for human use into three categories, Classes I, II and III, on the basis of the controls deemed necessary by the FDA to reasonably assure their safety and effectiveness. Class I devices are required to comply with general controls regarding such matters as labeling, premarket notification and adherence to good manufacturing practice requirements. Class II devices are required to comply with general and special controls regarding such matters as performance standards, postmarket surveillance, patient registries, and FDA guidelines. Generally, Class III devices are those which must receive premarket approval from the FDA to ensure their safety and effectiveness. Examples of Class III devices include life-sustaining, life-supporting and implantable devices, or new devices which have not been found substantially equivalent to legally marketed devices. Electronic infusion devices and disposable tubing sets are classified by the FDA as Class II medical devices.

If a new Class II medical device is substantially equivalent to a medical device already legally marketed in the United States, and the marketed service did not require Class III premarket approval, the FDA requirements may be satisfied through a procedure known as a "510(k) Submission," in which the applicant provides product information supporting its claim of substantial equivalency. "Substantial equivalence" means that a device has the same intended use and the same technological characteristics as the legally marketed device, or the same intended use and different technological characteristics, provided that it can be demonstrated that the device is as safe and effective as the legally marketed device, and does not raise different questions regarding safety and effectiveness.

Commercial distribution of a device for which a 510(k) Submission is required can begin only after the FDA issues an order finding the device to be substantially equivalent to a legally marketed device. The FDA has recently been requiring a more rigorous demonstration of substantial equivalence than in the past. This may include a requirement for clinical testing of the device. It generally takes four months from submission to obtain a 510(k) clearance based on average 510(k) review times for the fiscal year 1998, but it may take longer. The FDA may determine that a proposed device is not substantially equivalent to a legally marketed device, in which case a "PMA" or "premarket approval" will be required. Alternatively, the FDA may require additional information before a substantial equivalence determination can be made, in which case data from safety and effectiveness tests, including clinical tests, may be required. The process for preparing and obtaining FDA approval of a PMA is generally much more elaborate, time-consuming and expensive than the process of preparing and obtaining FDA clearance of a 510(k) Submission and would require Sabratek, among other things, to conduct preclinical and clinical trials to demonstrate the safety and effectiveness of the proposed device. A not substantially equivalent determination or a request for additional information could significantly delay

the market introduction of new products that fall into this category.

Sabratek received 510(k) clearance to begin marketing the 3030 Stationary Pump in the United States in May, 1992. Sabratek received 510(k) clearance for the disposable tubing sets for use with the 3030 Stationary Pump in March, 1995. In July, 1994, the FDA cleared the 510(k) Submission for the 6060 Ambulatory Pump and disposable tubing sets for use with the 6060 Ambulatory Pump. In June, 1996, Sabratek received 510(k) clearance for the MediVIEW software system for use with the 3030 Stationary Pump.

Sabratek believes that its 510(k) clearance for the 6060 Ambulatory Pump covers the MediVIEW software system used with the 6060 Ambulatory Pump such that Sabratek can market the MediVIEW software with the 6060 Ambulatory Pump in the United States. However, there can be no assurance that the FDA would agree with Sabratek's determination. If in the future the FDA concluded that the MediVIEW software system for use with the 6060 Ambulatory Pump required a new 510(k) Submission, the FDA could prohibit Sabratek from marketing the MediVIEW software system for this use until Sabratek files a new 510(k) Submission and obtains clearance from the FDA. The FDA could also take regulatory action against Sabratek for any prior distribution of the MediVIEW software system with the 6060 Ambulatory Pump.

The PumpMaster is a hardware and software system designed to perform diagnostic tests on Sabratek's infusion pumps. Sabratek has determined that the PumpMaster does not qualify for regulation as a medical

13

16

device. There can be no assurance that the FDA will agree with Sabratek's determination in this regard. If the FDA were to determine that the PumpMaster is a medical device, it could suspend its commercial distribution until a 510(k) Submission covering the PumpMaster has been filed by Sabratek and cleared by the FDA and other medical device regulatory requirements have been met. The FDA could also take regulatory action against Sabratek based on its prior distribution of the uncleared product.

The FFDCA requires the filing of a new 510(k) Submission when, among other things, there is a major change or modification in the intended use of the device, or a change or modification, including product enhancements, to a legally marketed device that could significantly affect its safety or effectiveness. A device manufacturer is responsible for making the initial determination as to whether a proposed change to a cleared device or to its intended use necessitates the filing of a new 510(k) Submission. Sabratek has made some enhancements to its currently marketed products without filing 510(k) Submissions. There can be no assurance that the FDA would agree with Sabratek's determinations that these enhancements do not require a 510(k) Submission and would not require 510(k) clearance before further distribution. Likewise, if Sabratek determines that any modifications that it may make to its cleared devices in the future do not require a new 510(k) Submission, there can be no assurance that the FDA would agree with Sabratek's determinations and would not require a new 510(k) Submission for any future modifications made to a cleared device. If the FDA requires Sabratek to file a new 510(k) Submission for any modification to the device, Sabratek may be prohibited from marketing the device as modified until it obtains clearance from the FDA. There can be no assurance that Sabratek will obtain 510(k) clearance on a timely basis, if at all, for any device modification for which it files a future 510(k) Submission. If 510(k) clearance is granted, there can be no assurance that it will not contain significant limitations in the form of warnings, precautions or contraindications with respect to conditions of use.

Sabratek's Rocap establishments are registered with the FDA as a device manufacturer, and its products are required to be manufactured according to the Quality System Regulation which imposes process, procedure and documentation requirements upon Sabratek with respect to design, manufacturing and quality assurance activities. Based on the FDA's determination that the Rocap operation's pre-filled flush syringe products are to be regulated as medical devices, the Rocap establishments do not need to maintain their registrations with the FDA as a drug manufacturer and repackager. The products manufactured by Rocap contain components that are purchased from other manufacturers, which have received FDA approvals for the components as drugs. There can be no assurance that the suppliers of these components will be able to maintain their approvals. If such approvals were lost, Sabratek could have to revise pending or resubmit new 510(k) Submissions for the Rocap products and obtain FDA clearance before marketing.

Sabratek intends to develop new products for the future. Sabratek's new products, including new applications for existing products, may qualify as devices that require FDA 510(k) clearance or PMA prior to marketing. There can be no assurance that market clearance of future products or product applications will be forthcoming in a timely manner, if at all, or that the FDA's clearance or approval of future products or product applications will not contain



significant limitations in the form of warnings, precautions or contraindications with respect to conditions of use. If in the future the FDA concludes that current, modified or new products manufactured and distributed by Sabratek require that the products be relabeled, require 510(k) clearance, require new drug approval, or other regulatory approval, the FDA could prohibit Sabratek from manufacturing and/or distributing these products until Sabratek took the necessary regulatory steps, made the necessary submissions and obtained any required clearances or approvals. The FDA could also take regulatory action against Sabratek for the manufacture and/or distribution of such products.

In October, 1996, Sabratek learned of a defect in a software feature of some of the 6060 Ambulatory Pumps. Sabratek initiated a recall of these units to correct the problem with an upgrade of the software. As recommended by FDA guidelines, Sabratek notified the FDA of the recall and has updated the FDA of the progress of the recall, which is now closed. The FDA reported this recall in the January 15, 1997 issue of the FDA Enforcement Report. The FDA classified Sabratek's recall as a Class II recall, which is defined as a situation in which the use of a violative product may cause temporary or medically reversible adverse health consequences or where the probability of serious adverse health consequences is remote.

14

17

Any products manufactured or distributed by Sabratek for which it has received FDA 510(k) clearances continue to be regulated by the FDA. Device manufacturers are required to register their establishments and list their devices with the FDA, and are subject to periodic inspections by the FDA and certain state agencies. The FFDCA requires devices to be manufactured in compliance with current good manufacturing practices (implemented under the Quality System Regulation). Sabratek believes that its manufacturing and quality assurance procedures substantially conform to the requirements of the Quality System Regulation. However, there can be no assurance that the FDA would concur with Sabratek's determination in this regard or that Sabratek will be able to maintain substantial compliance with the Quality System Regulation.

In addition, the Medical Device Reporting regulation obligates Sabratek to inform the FDA whenever information reasonably suggests that one of its devices may have caused or contributed to death or serious injury, or that one of its devices has malfunctioned and, if the malfunction were to recur, the device or a similar Sabratek device would be likely to cause or contribute to a death or serious injury. There can be no assurance that the FDA would agree with Sabratek's determinations as to whether particular incidents meet the threshold for Medical Device Reporting.

Labeling and promotion activities are regulated by the FDA and may be regulated by the Federal Trade Commission. The FDA actively enforces statutes and regulations prohibiting marketing of products for unapproved or uncleared uses.

If, as a result of FDA inspections, Medical Device Reporting reports or information derived from any other source, the FDA believes Sabratek is not in compliance with the applicable statutory law or regulations, the FDA can: refuse to clear pending 510(k) Submissions until specified conditions; possibly withdraw previously cleared 510(k) Submissions; require notification to users regarding newly found unreasonable risks; request repair, refund or replacement of faulty devices; require corrective advertisements, recalls or marketing suspension; impose civil penalties; or institute legal proceedings to detain or seize products, enjoin future violations, or seek criminal penalties against Sabratek, its officers or employees. Civil penalties for FFDCA violations may be assessed by the FDA in lieu of or in addition to instituting legal action. Civil penalties may range up to \$15,000 per violation for violations of the FFDCA, and a maximum of \$1,000,000 per proceeding. Civil penalties may not be imposed for good manufacturing practice violations, unless the violations involve a significant or knowing departure from the requirements of the FFDCA or a risk to public health. The FDA provides manufacturers with an opportunity to be heard prior to the assessment of civil penalties. If civil penalties are assessed, judicial review is available.

Sabratek exports, or intends to export, its 510(k)-cleared products to Europe, Japan and other foreign countries. Exports of products that have market clearance from the FDA in the United States do not require FDA authorization for export. However, foreign countries often require, among other things, an FDA Certificate to Foreign Government verifying that the product complies with specified FFDCA requirements. To obtain a Certificate to Foreign Government, the device manufacturer must certify to the FDA that certain FFDCA requirements have been met. The FDA may refuse to issue a Certificate to Foreign Government if significant outstanding good manufacturing practice violations exist.

International sales of medical devices are regulated by each country in which the products are sold. The regulatory review process varies from country



to country. Many countries also impose product standards, packaging and labeling requirements, and import restrictions on devices. In addition, each country has its own tariff regulations, duties and tax requirements. Sabratek plans to use its distributors to assist in obtaining any necessary foreign governmental and regulatory approvals. Sabratek has received approval to market its products in Japan as well as in the European community, and Sabratek currently sells its products in Japan and the European community.

Sabratek has received Underwriters Laboratory, Inc. product recognition under UL 544, Standard for Medical and Dental Equipment and UL 2601, General Requirements for Safety for Mechanical Electrical Equipment as well as product recognition under Canadian National Standard C22.2 through cUL for both the 3030 Stationary Pump and the 6060 Ambulatory Pump. Sabratek must undergo quarterly inspections by Underwriters Laboratory, Inc. to maintain UL status. In May, 1998, Sabratek obtained ISO 9003 certification and is in the process of qualifying for ISO 9001 certification.

15

18

Sabratek and its products are also regulated under a variety of state and local laws in those states or localities where its products are or will be marketed.

Manufacturers are also regulated under numerous federal, state and local laws relating to the following matters: safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. There can be no assurance that Sabratek will not be required to incur significant costs to comply with these laws and regulations.

For a discussion of regulatory status of the Rocap product line, see "Business -- Recent Developments."

#### PRODUCT LIABILITY INSURANCE

Sabratek faces an inherent business risk of exposure to product liability claims in the event that the use of its products is alleged to have resulted in adverse effects. Sabratek maintains product liability insurance with coverage of \$20 million per claim, with an annual aggregate policy limit of \$20 million. There can be no assurance that liability claims will not exceed the coverage limits of these policies or that these policies will continue to be available on commercially acceptable terms, if at all.

#### EMPLOYEES

As of December 31, 1998, Sabratek and its subsidiaries employed approximately 382 persons full-time, including 240 in manufacturing and operations, 53 in sales, marketing and clinical support, 18 in research and development, 37 in administration, and 34 in regulatory affairs/quality assurance.

Sabratek has entered into employee non-disclosure and non-competition agreements with each of its full-time employees that (a) prohibit disclosure of confidential information to anyone outside of Sabratek both during and subsequent to employment, (b) require disclosure to Sabratek of ideas, discoveries or inventions relating to or resulting from the employee's work for Sabratek and assignment to Sabratek of all proprietary rights to these ideas, discoveries or inventions, and (c) limit competition with Sabratek's business by the employee for a maximum period of one year following termination of their employment.

#### ITEM 2. PROPERTIES

Sabratek occupies approximately 84,760 square feet of development, production, warehouse and administrative space in Skokie, Illinois. The facility lease runs through July 30, 2003. At the expiration of the lease, Sabratek has the option to renew the lease for one three-year period. The current annual lease rate for this space is approximately \$402,610. The annual lease rate may increase after the 3rd year of the lease. Sabratek may be required to lease additional space in the future and believes that the space will be readily available at reasonable rates.

Sabratek's Rocap operation occupies approximately 7,900 square feet of production, warehouse and administrative space at two facilities in Woburn, Massachusetts. The lease terms end July 31, 2000 and August 1, 2000. The current annual lease rate in aggregate is approximately \$64,000. The Rocap operation also occupies approximately 14,400 square feet of production, warehouse and administrative space at one facility in Orlando, Florida. The lease expires in 2007. The current annual base lease rate is approximately \$104,400. The Rocap operation also occupies approximately 81,088 square feet of production, warehouse and administrative space in Orlando, Florida. The facility lease runs

through 2007. The current annual lease rate for this space is approximately \$535,586. Sabratek intends to continue to operate the Rocap operation's current business from its existing facilities but may need to lease additional space based upon the planned expansion of the Rocap operation business.

CMS Healthcare, Inc. occupies approximately 2,271 square feet of administration space in Tampa Bay, Florida. The lease term runs through July 31, 2001. The current annual lease rate for this space is approximately \$32,930.

16

19

#### ITEM 3. LEGAL PROCEEDINGS

On February 5, 1997, SIMS Deltec filed a complaint in the United States District Court for the District of Minnesota alleging that Sabratek's manufacture, use and/or sale of the MediVIEW software in conjunction with its infusion pumps infringes on a patent entitled "Systems and Methods of Communicating with Ambulatory Medical Devices Such as Drug Delivery Devices" previously issued to SIMS Deltec. Subsequently, SIMS Deltec filed other pleadings that raised additional claims against Sabratek and three of its employees including trade secret misappropriation, unfair competition and interference with SIMS Deltec's customers. SIMS Deltec seeks injunctive relief, unspecified monetary damages and costs. In addition, SIMS Deltec filed for a preliminary injunction against Sabratek seeking to prevent on a preliminary basis Sabratek's manufacture and sale of the MediVIEW system. On August 4, 1997, the District Court denied the motion for preliminary injunction. Additionally, one of the claims against a Sabratek employee has been dismissed with prejudice. Sabratek and the individual defendants intend to vigorously defend against the allegations made by SIMS Deltec. Protracted litigation or an adverse outcome in this matter could have a material adverse impact on Sabratek's business, financial position and results of operations.

In addition, on June 27, 1997, Sabratek filed a complaint against SIMS Deltec which is currently pending in the United States District Court for the District of Minnesota alleging that SIMS Deltec employees have made misstatements about Sabratek's products. Sabratek has stated claims under the Federal Lanham Act to stop SIMS Deltec's improper disparagement and has requested preliminary and permanent injunctive relief, monetary damages and costs.

Sabratek was served with a complaint on January 27, 1999, alleging that Sabratek and seven officers and former officers violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Securities Exchange Act of 1934. The complaint alleges that defendants issued a series of false and misleading statements concerning Sabratek's business, its products and its prospects for future profitability.

The complaint seeks to recover damages on behalf of all persons who purchased shares of Sabratek's common stock between January 13, 1998 and November 24, 1998, although no court has determined that these persons constitute a proper class. The complaint was filed in the United States District Court for the Northern District of Illinois (Chu v. Sabratek Corporation, et al., Docket No. 99 C 0351). Neither Sabratek nor the individual defendants have yet responded to the complaint, but all parties intend to vigorously defend against the allegations contained in the complaint. Protracted litigation or an adverse outcome in this matter could have a material adverse impact on Sabratek's business, financial position and results of operations.

Sabratek is also a party to routine litigation in the ordinary course of business, none of which, if determined adversely to Sabratek, would individually or in the aggregate have a material adverse effect on Sabratek.

#### ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

17

20

#### PART II

#### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Sabratek completed its initial public offering in June, 1996 at a price per share of \$10.00. Since June 21, 1996, Sabratek's common stock has traded on the Nasdaq National Market under the symbol "SBTK". The following table identifies, for the periods indicated, the high and low reported sale prices of shares of the common stock as reported on the Nasdaq National Market.

<TABLE>  
<CAPTION>

	HIGH ----		LOW ---	
<S>	<C>	<C>	<C>	<C>
1996				
Second Quarter (from June 21, 1996).....	\$12		\$10	
Third Quarter.....	\$16	1/2	\$ 7	3/4
Fourth Quarter.....	\$16	3/4	\$13	
1997				
First Quarter.....	\$29	1/8	\$15	1/4
Second Quarter.....	\$31	3/8	\$17	3/4
Third Quarter.....	\$39	1/4	\$25	
Fourth Quarter.....	\$38	11/16	\$23	
1998				
First Quarter.....	\$36		\$28	
Second Quarter.....	\$36	1/8	\$22	1/2
Third Quarter.....	\$27	3/4	\$16	3/8
Fourth Quarter.....	\$34	1/4	\$13	
1999				
First Quarter (through March 17, 1999).....	\$25	1/2	\$14	3/8

</TABLE>

As of March 17, 1999 there were 159 holders of record of Sabratek's common stock.

Sabratek has never paid a cash dividend and does not anticipate the payment of cash dividends in the foreseeable future as earnings are expected to be retained to finance Sabratek's growth. Declaration of dividends in the future will remain within the discretion of Sabratek's Board of Directors, which will review its dividend policy from time to time.

During the fourth quarter of 1998, Sabratek issued 11,076 shares of common stock upon the exercise of warrants not covered by a registration statement. Sabratek received proceeds of approximately \$52,722 upon the exercise of these warrants. All these issuances of common stock were exempt from registration pursuant to Section 4(2) of the Securities Act.

18

21

#### ITEM 6. SELECTED FINANCIAL DATA

The selected financial data with respect to Sabratek's statements of operations for each of the years in the five year period ended December 31, 1998 and the balance sheet data as of December 31, 1998, 1997, 1996, 1995 and 1994 are derived from Sabratek's audited financial statements. The financial data for Sabratek should be read in conjunction with Sabratek's Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere herein.

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1998 ----	1997 ----	1996 ----	1995 ----	1994 ----
<S>	<C>	<C>	<C>	<C>	<C>
(IN THOUSANDS, EXCEPT PER SHARE DATA)					
STATEMENT OF OPERATIONS DATA:					
Net sales.....	\$ 66,910	\$43,058	\$ 17,696	\$ 4,040	\$ 3,315
Cost of sales.....	29,966	18,720	8,748	2,902	2,481
Provision for inventory reserve.....	2,116	--	--	--	--
Gross margin.....	34,828	24,338	8,948	1,138	834
Selling, general and administrative expenses.....	26,248	18,256	8,474	6,874	4,108
Operating income (loss).....	8,580	6,082	474	(5,736)	(3,274)
Interest expense.....	(3,623)	(45)	(319)	(222)	(260)
Other income (expense), including interest income.....	3,402	1,209	615	(78)	(21)
Stock appreciation rights(1).....	--	--	(1,628)	--	--
Provision for income taxes.....	3,487	--	--	--	--
Net income (loss).....	\$ 4,872	\$ 7,246	\$ (858)	\$ (6,036)	\$ (3,555)

Basic income (loss) per share.....	\$ 0.47	\$ 0.75	\$ (0.17)	\$ (3.72)	\$ --
	=====	=====	=====	=====	=====
Basic weighted average shares outstanding(2).....	10,316	9,614	5,143	1,622	--
	=====	=====	=====	=====	=====
Diluted income (loss) per share.....	\$ 0.47	\$ 0.67	\$ (0.17)	\$ (3.72)	\$ --
	=====	=====	=====	=====	=====
Diluted weighted average shares outstanding(2).....	11,146	10,895	5,143	1,622	--
	=====	=====	=====	=====	=====

</TABLE>

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	----	----	----	----	----
	(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
Working capital.....	\$ 70,969	\$48,156	\$ 24,587	\$ (1,101)	\$ 999
Total assets.....	152,679	71,167	32,951	4,179	3,338
Short-term debt (including current portion of long term obligations)(3).....	33	25	303	775	91
Debt and Long-term obligations.....	85,216	264	24	2,512	464
Accumulated deficit.....	(2,192)	(7,064)	(14,310)	(13,452)	(7,416)
Total stockholders' equity (deficit).....	58,029	64,415	28,650	(2,821)	1,151

</TABLE>

(1) For the year ended December 31, 1996, a non-recurring charge in the amount of approximately \$1.6 million was recorded to recognize obligations under certain stock appreciation rights in connection with Sabratek's June 1996 initial public offering.

(2) See Note (2) to the Financial Statements for an explanation of the calculation of weighted average shares outstanding.

(3) Includes capital lease obligations.

19

22

# ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

## OVERVIEW

Sabratek's founding vision and strategic focus is the creation of a virtual hospital room for the alternate-site health care market. From its inception in 1989 through mid-1992, Sabratek was in its development stage and engaged primarily in research and development, product engineering and activities related to obtaining clearance from the FDA for its first product, the 3030 Stationary Pump. Sabratek has six years of operating history and experienced significant operating losses from its inception through mid-1996. Upon receiving FDA clearance for the 3030 Stationary Pump in mid-1992, Sabratek focused its efforts on creating a domestic and international sales and marketing network, as well as a manufacturing capability, to assist in the distribution of its first product to the alternate-site health care market. Concurrent with these sales and marketing activities, Sabratek continued to fund the research, development and regulatory clearance activities of other device and software products.

Sabratek commercially launched the 6060 Ambulatory Pump and related disposable supplies in late 1995 and both MediVIEW(R) and the PumpMaster(R) in late 1996. Since then, Sabratek has continued its sales and marketing activities domestically and internationally for the distribution of its products and continued to fund the research and development of additional products. On February 25, 1997, Sabratek acquired substantially all the assets of Rocap which produces and markets pre-packaged injectable prescription pharmaceuticals and pre-filled flush syringes. In addition, Sabratek derives revenues from the servicing of products, sale of accessories, extended warranties and consulting services.

Sabratek sells its products both directly to alternate-site and acute-care providers, as well as to third-party distributors. Sabratek's distributors and customers may purchase several months of inventory at any one time which may cause fluctuations in quarterly revenues. Sabratek also markets and sells its products internationally and, as a result, its revenues may be affected by the strength of the U.S. dollar compared to other currencies. Failure to obtain regulatory approval for the distribution of new products domestically or in

international markets, or adverse regulatory changes, may also affect the revenues of Sabratek.

In November 1998, Sabratek announced that it had suspended distribution of its Rocap pre-filled flush syringe product line. Sabratek also announced that it would submit new 510(k) applications to the FDA for the Rocap pre-filled flush syringe products and that new management was in place at Rocap for both operations and regulatory affairs. Sabratek has submitted the new 510(k) applications, but they have not been approved by the FDA. The suspension had a material adverse effect on revenues and operating results for the fourth quarter of 1998.

Sabratek has entered into a number of strategic partnerships, including Unitron, GDS, Collaborations in Healthcare, LLC and HealthMagic, which provide components of the virtual hospital room. Management intends to pursue additional acquisition and partnering opportunities in order to further accelerate the development of the virtual hospital room.

#### RESULTS OF OPERATIONS

##### YEARS ENDED DECEMBER 31, 1998 AND 1997

**NET SALES.** Net sales increased \$23.8 million to \$66.9 million for the year ended December 31, 1998 as compared to \$43.1 million for the year ended December 31, 1997, an increase of 55%. The increase is attributable to several factors; incremental unit sales volume of the 3030 Stationary Pump and 6060 Ambulatory Pump and their respective disposables into the alternate-site health care market including national homecare companies, an increase in the average per unit selling price due to a higher ratio of direct sales versus dealer sales, an increase in unit sales volume of the Rocap pre-filled flush syringe product line, the addition of the MediVIEW and PumpMaster products, an increase in unit sales volume of certain licensed products from GDS Technology, Inc., and the addition of revenues from marketing and clinical consulting services.

20

23

**COST OF SALES.** Cost of sales increased \$11.3 million to \$30.0 million for the year ended December 31, 1998, as compared to \$18.7 million for the year ended December 31, 1997, an increase of 60%. The increase is primarily attributable to direct product costs associated with incremental unit sales volume of the 3030 and 6060 infusion pumps and related disposables, as well as increased unit sales volume of the Rocap pre-filled flush syringe product line. Indirect overhead costs relating to the expansion of production capacity have also contributed to the increase.

**PROVISION FOR INVENTORY RESERVE.** An inventory reserve of \$2.1 million was recorded as of December 31, 1998 to provide an allowance for the Rocap pre-filled flush syringe finished goods inventory on hand as of December 31, 1998 in the event Sabratek cannot distribute any or portions of the inventory. No inventory reserve was recorded as of December 31, 1997.

**GROSS MARGIN.** Gross margin increased \$10.5 million to \$34.8 million for the year ended December 31, 1998 as compared to \$24.3 million for the year ended December 31, 1997, an increase of 43%. Excluding the provision for inventory reserve, gross margin increased \$12.6 million to \$36.9 million for the year ended December 31, 1998 as compared to \$24.3 million for the year ended December 31, 1997, an increase of 52%. The increase is due primarily to the incremental unit sales volume and per unit contribution thereon. The increase in gross margin was off-set by increased indirect overhead costs relating to the expansion of production capacity and fixed overhead costs relating to the Rocap product line during a period of time in 1998 in which Rocap product sales were suspended. Gross margin as a percent of sales decreased to 52% for the year ended December 31, 1998 as compared to 57% for the year ended December 31, 1997. The decrease in gross margin as a percent of net sales resulted from a greater mix of Rocap products sold during the year, which are sold at a lower margin, and the suspension of sales of the Rocap product line as discussed above.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$7.9 million to \$26.2 million for the year ended December 31, 1998 as compared to \$18.3 million for the year ended December 31, 1997, an increase of 44%. The increase is due primarily to the expansion of Sabratek's direct sales force and clinical support staff and the associated travel thereby, as well as, greater aggregate commissions paid in conjunction with higher net sales. Contributing also to the increase for the year ended December 31, 1998 was the addition of administrative and management personnel, the relocation and expansion of Sabratek's main facility in Illinois, and additional regulatory expenses relating to the Rocap product line. Selling, general and administrative expenses as a percent of net sales decreased to 39% for the year ended December 31, 1998 as compared to 42% for the year ended December 31, 1997.

OPERATING INCOME. Operating income increased \$2.5 million to \$8.6 million for the year ended December 31, 1998 as compared to \$6.1 million for the year ended December 31, 1997, an increase of 41%. Excluding the provision for inventory reserve, operating income increased \$4.6 million to \$10.7 million for the year ended December 31, 1998 as compared to \$6.1 million for the year ended December 31, 1997, an increase of 76%. Operating income as a percent of sales decreased to 13% for the year ended December 31, 1998 as compared to 14% for the year ended December 31, 1997. Excluding the provision for inventory reserve, operating income as a percent of net sales increased to 16% for the year ended December 31, 1998. The increase in operating income is due primarily to incremental gross margin generated by increased unit sales volume of new and existing products, as described above, but was significantly off-set by the provision for inventory reserve.

INTEREST INCOME. Interest income increased \$2.2 million to \$3.4 million for the year ended December 31, 1998 as compared to \$1.2 million for the year ended December 31, 1997, an increase of 174%. The increase is attributable to a higher average balance of cash available for investment as compared to that of the year ended December 31, 1997. In April 1998, Sabratek sold 6% convertible notes which resulted in net proceeds of approximately \$82.1 million. Sabratek completed a secondary public offering in April, 1997 which resulted in net proceeds to Sabratek of approximately \$21.6 million.

INTEREST EXPENSE. Interest expense increased to \$3.6 million for the year ended December 31, 1998 as compared to \$45,000 for the year ended December 31, 1997, an increase of 7,951%. The increase for the year ended December 31, 1998 is attributable to the sale of 6% convertible debt in April, 1998 for the principal

21

24

amount of \$85.0 million. Interest expense for the year ended December 31, 1997 applies to capital lease obligations and borrowings collateralized by a certain customer receivable.

PROVISION FOR INCOME TAXES. A provision for income taxes of \$3.5 million has been recorded for the year ended December 31, 1998 to reflect the tax benefit of compensation expense recognized for tax purposes resulting from the exercise of stock options. Due to utilization of available net operating loss carryforwards, Sabratek did not incur any federal or state income tax liability for the year ended December 31, 1997. Utilization of remaining net operating loss carryforwards depends on future earnings and will be subject to annual limitations as a result of changes that have occurred in Sabratek's ownership.

NET INCOME. Net income decreased \$2.3 million to \$4.9 million for the year ended December 31, 1998 as compared to \$7.2 million for the year ended December 31, 1997, a decrease of 33%. The decrease in net income is attributable to income tax provided for the year ended December 31, 1998 which was not provided for the year ended December 31, 1997. An effective tax rate for 1997 was not recorded due to the utilization of available net operating loss carryforwards as discussed above. Also contributing to the decrease is the provision for inventory reserve recorded for the year ended December 31, 1998.

YEARS ENDED DECEMBER 31, 1997 AND 1996

NET SALES. Net sales increased \$25.4 million to \$43.1 million for the year ended December 31, 1997 as compared to \$17.7 million for the year ended December 31, 1996, an increase of 143%. The increase is attributable to several factors; incremental unit sales volume of the 3030 Stationary Pump and 6060 Ambulatory Pump and their respective disposables into the alternate-site health care market including national homecare companies, an increase in the average per unit selling price due to a higher ratio of direct sales versus dealer sales, the addition of the Rocap product line of pre-filled flush syringes in February, 1997, the addition of the MediVIEW and PumpMaster products, and the addition of certain licensed products from GDS Technology, Inc.

COST OF SALES. Cost of sales increased \$10.0 million to \$18.7 million for the year ended December 31, 1997, as compared to \$8.7 million for the year ended December 31, 1996, an increase of 114%. The increase is primarily attributable to direct product costs associated with incremental unit sales volume of the 3030 and 6060 infusion pumps and related disposables, the addition of the Rocap product line and an increase in costs relating to the expansion of production capacity.

GROSS MARGIN. Gross margin increased \$15.4 million to \$24.3 million for the year ended December 31, 1997 as compared to \$8.9 million for the year ended December 31, 1996, an increase of 172%. The increase is due primarily to the incremental unit sales volume and per unit contribution thereon, including the economies of scale realized by allocating fixed manufacturing costs over a

greater number of units. Also contributing to the increase were higher average pricing levels, a more favorable product mix of the 6060 Ambulatory Pump units to 3030 Stationary Pump units, and the addition of the Rocap product line. Gross margin as a percent of net sales increased to 57% for the year ended December 31, 1997 as compared to 51% for the year ended December 31, 1996.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$9.8 million to \$18.3 million for the year ended December 31, 1997 as compared to \$8.5 million for the year ended December 31, 1996, an increase of 115%. The increase is due primarily to the expansion of Sabratek's direct sales force and clinical support staff and the associated travel thereby, as well as, greater aggregate commissions paid in conjunction with higher net sales. Contributing also to the increase for the year ended December 31, 1997 was the assumption of expenses relating to the Rocap product line, the addition of administrative and management personnel, as well as the expansion of the Niles, Illinois facility. Expenses relating to SIMS Deltec, Inc. litigation were approximately \$737,000 for the year ended December 31, 1997. Selling, general and administrative expenses as a percent of net sales decreased to 42% for the year ended December 31, 1997 as compared to 48% for the year ended December 31, 1996.

OPERATING INCOME. Operating income increased to \$6.1 million for the year ended December 31, 1997 as compared to \$474,000 for the year ended December 31, 1996, an increase of 1,183%. Operating income as a

22

25

percent of net sales increased to 14% for the year ended December 31, 1997 as compared to 3% for the year ended December 31, 1996. The increase in operating income is due primarily to incremental gross margin generated by increased unit sales volume of new and existing products, as described above.

INTEREST INCOME. Interest income increased to \$1.2 million for the year ended December 31, 1997 as compared to \$617,000 for the year ended December 31, 1996, an increase of 101%. The increase is attributable to a higher average balance of cash available for investment as compared to that of the year ended December 31, 1996. Sabratek completed a secondary public offering in April, 1997 which resulted in net proceeds to Sabratek of approximately \$21.6 million. In June, 1996, Sabratek completed an initial public offering which resulted in net proceeds to Sabratek of approximately \$26.8 million.

INTEREST EXPENSE. Interest expense decreased to \$45,000 for the year ended December 31, 1997 as compared to \$319,000 for the year ended December 31, 1996, a decrease of 86%. The decrease for the year ended December 31, 1997 is primarily attributable to the conversion and elimination of all convertible debt outstanding at Sabratek's initial public offering in June, 1996. Interest expense for the year ended December 31, 1997 applies to capital lease obligations and borrowings collateralized by a certain customer receivable.

STOCK APPRECIATION RIGHTS EXPENSE. No stock appreciation rights expense is recorded for the year ended December 31, 1997 as compared to \$1.6 million for the year ended December 31, 1996. The stock appreciation rights expense for the year ended December 31, 1996 was non-recurring.

PROVISION FOR INCOME TAXES. Due to net operating loss carryforwards sufficient enough to offset pretax income, Sabratek did not incur any federal or state income tax liability for the year ended December 31, 1997. Due to net losses for the year ended December 31, 1996, Sabratek did not incur any federal or state income tax liability for the period. Utilization of remaining net operating loss carryforwards depends on future earnings and will be subject to annual limitations as a result of changes that have occurred in Sabratek's ownership.

NET INCOME. Net income was \$7.2 million for the year ended December 31, 1997 as compared to a net loss of \$858,000 for the year ended December 31, 1996. Net income for the year ended December 31, 1997 was achieved primarily as a result of incremental gross margin generated by increased unit sales volume of new and existing products, as discussed above. Also contributing to net income for the year ended December 31, 1997 was the increase in interest income due to the investment of excess cash. Additionally, the year ended December 31, 1996 included the non-recurring charge for stock appreciation rights of \$1.6 million.

#### LIQUIDITY AND CAPITAL RESOURCES

In April, 1998, Sabratek completed an institutional private placement of 6% Convertible Notes in an aggregate principal amount of \$85,000,000 maturing in 2005. The interest is fixed and is payable semi-annually. The notes are convertible into Sabratek's common stock at a conversion price of \$40.46 anytime at the option of the noteholders. Sabratek may redeem the notes at anytime after April 18, 2001. Net proceeds to Sabratek were approximately \$82.1 million and

such proceeds were used to purchase investment grade securities.

As of December 31, 1998, Sabratek had approximately \$58.1 million in cash, cash equivalents, and investments in marketable securities, and had net working capital of approximately \$71.0 million. During 1998, approximately \$19.3 million was used to purchase outstanding common stock of Sabratek pursuant to a repurchase program approved by Sabratek's Board of Directors. In March, 1997, Sabratek entered into a two-year credit agreement with a financial institution with up to \$9.5 million of available borrowing. As of February 28, 1999, no borrowing had occurred under the credit agreement.

Sabratek used cash in its operations of approximately \$3.9 million for the year ended December 31, 1998. Cash used in operations for the period was due, primarily, to the growth in trade accounts receivable and inventories as a result of actual and anticipated growth in sales volume.

During the third quarter of 1997, Sabratek entered into strategic partnerships with Unitron and GDS and has paid cash license fees of \$15.9 million as of December 31, 1998, in aggregate. Should an acquisition

23

26

consummate under the terms of the respective agreements, such acquisitions may require additional outlays of cash. In November, 1998, Sabratek entered into a Software License and Marketing Agreement with HealthMagic, Inc. whereby Sabratek paid license fees of \$10.0 million.

In October, 1998, Sabratek entered into a Standby Senior Credit Facility with Unitron whereby Sabratek, at its sole discretion, may lend up to \$10.0 million at an interest rate of 8% per annum. As of December 31, 1998, Sabratek had advanced \$3.1 million. The facility matures on October 15, 2003.

In November, 1998, Sabratek entered into a Standby Senior Credit Facility with Collaborations in Healthcare, LLC whereby Sabratek may lend up to \$4.0 million at an interest rate of 8% per annum. As of December 31, 1998, Sabratek had advanced \$1.8 million. The facility matures on November 23, 2001. Simultaneously, the parties entered into a Unit Option Agreement whereby Sabratek has the right to acquire Collaborations in Healthcare, LLC. If such right is exercised, the acquisition may require additional outlays of cash.

In September, 1997, Sabratek initiated a hedging program through the use of forward contracts to minimize foreign currency fluctuation exposure. As of December 31, 1998, the remaining aggregate U.S. dollar amount of the forward contracts was \$1.0 million, and such contracts mature at various dates through July, 1999.

Sabratek has the right to acquire the assets or stock of Unitron, GDS, and Collaborations in Healthcare, LLC. Although it is not obligated to do so, Sabratek may use cash to consummate such acquisitions. If Sabratek uses its cash reserves to consummate these or other as yet unidentified acquisitions it will reduce its liquidity. Although Sabratek cannot predict the effect of the uncertainties listed below, Sabratek does not currently expect the use of its cash reserves in connection with acquisitions to have an adverse effect on the results of its operations.

Future liquidity and capital resources could be adversely influenced by certain factors including Sabratek's dependence on a relatively new customer base, regulatory or legislative changes pertaining to health care, product liability exposure regarding diagnosis and the delivery of medication, dependence on future product development, continued disruption of distribution of the Rocap product line, pending litigation and others. There can be no assurance that Sabratek will not require additional financing and may, in the future, seek additional funds through bank facilities, debt or equity offerings and to the extent such additional financing is not available, Sabratek could suffer material adverse effects to its financial position and the results of its operations.

#### YEAR 2000 STATUS

Since their inception, all of Sabratek's products, including software, have been developed with consideration for the millennium change. Additionally, the products have undergone specific year 2000 date testing to verify and validate compliance. Although Sabratek knows of no problems in this regard, due to the ability of certain of Sabratek's products to interact with other devices or software, Sabratek can give no assurance that the performance of its products could not be directly and indirectly affected by non-compliant products of a third party.

Sabratek has made inquiry of its material strategic partners and has received representation that the devices and software that Sabratek currently



licenses from third parties have been determined to be year 2000 compliant. Sabratek continues the process of verifying that its suppliers and other electronically date sensitive equipment will not experience year 2000 problems that could have a material adverse effect on Sabratek. The cost to Sabratek to assess and prepare for the year 2000 is estimated to be less than \$100,000.

Sabratek has assessed its systems and believes them to be year 2000 compliant. Sabratek will continue to assess its year 2000 exposure, including systems of third parties on which Sabratek relies. If Sabratek's management becomes aware of non-compliant systems that will adversely affect Sabratek or its products, it will develop an action plan and assess the resources necessary to resolve such problem.

24

27

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Sabratek's investment portfolio is exposed to market risk as it relates to interest rates. Investments are comprised of certificates of deposit, commercial paper, U.S. Treasury securities, asset backed securities, and money market accounts. Only high credit quality issuers are used and exposure to any one issuer is limited by policy. Maturities and average lives are lattered up to a maximum term of three years. These investments are considered available for sale and are recorded on the balance sheet at fair value.

Sabratek uses forward currency exchange contracts to hedge foreign currency exposures for a certain supplier. The contracts mature on various dates and may have maturities up to one year. Such contracts are executed by a major financial institution whereby risk of credit loss is minimized.

The following table summarizes those instruments subject to market risk:

<TABLE> <CAPTION>	
	FAIR VALUE
-----	
<S>	<C>
Fixed income securities maturing in 1999.....	\$ 6,058,200
Fixed income securities maturing in 2000.....	8,125,500
Variable rate securities maturing in 2000.....	4,005,600
Fixed income, asset backed securities (weighted average duration of 1.2 years).....	10,693,493
Variable rate demand notes, money market accounts, demand deposits, and overnight repurchase obligations.....	29,169,606
Forward currency exchange contracts, contract amount in U.S. dollars is \$994,627 in aggregate.....	17,397
</TABLE>	

25

28

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Sabratek Corporation:

We have audited the accompanying consolidated balance sheets of Sabratek Corporation as of December 31, 1998 and 1997, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the financial position of Sabratek Corporation as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the years in the three-year period ended December

31, 1998 in conformity with generally accepted accounting principles.

/s/ KPMG LLP  
KPMG LLP

Chicago, Illinois  
March 12, 1999

26

29

SABRATEK CORPORATION  
CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

		DECEMBER 31,	
		1998	1997
		----	----
<S>	<C>	<C>	<C>
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 29,169,606	\$19,598,203	
Investments in marketable securities, short term.....	6,058,200	5,004,390	
Receivables:			
Trade, net of allowance for doubtful accounts of			
\$835,600 at December 31, 1998 and \$502,772 at December			
31, 1997, respectively.....	19,386,099	15,293,268	
Other.....	499,506	207,960	
	-----	-----	
Total receivables.....	19,885,605	15,501,228	
	-----	-----	
Inventories.....	23,972,726	13,718,459	
Prepays.....	1,315,795	821,107	
	-----	-----	
Total current assets.....	80,401,932	54,643,387	
	-----	-----	
Property, plant and equipment, net.....	7,618,430	3,546,286	
Notes receivable.....	6,548,435	233,334	
Goodwill, net.....	4,298,285	4,341,602	
Intangibles, net.....	28,065,367	8,301,881	
Investments in marketable securities.....	22,824,593	--	
Other.....	2,921,564	100,444	
	-----	-----	
	\$152,678,606	\$71,166,934	
	=====	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term debt, including current portion of capital			
lease obligations.....	\$ 33,461	\$ 24,628	
Account payable.....	6,969,457	3,718,042	
Payroll and commissions.....	524,802	2,039,275	
Warranty.....	335,655	303,655	
Accrued interest expense.....	1,062,500	--	
Accrued expenses.....	473,077	299,979	
Other.....	34,423	102,184	
	-----	-----	
Total current liabilities.....	9,433,375	6,487,763	
	-----	-----	
Debt.....	85,000,000	--	
Other long term obligations.....	215,854	264,383	
	-----	-----	
Total liabilities.....	94,649,229	6,752,146	
	-----	-----	
Commitments and contingencies.....			
Stockholders' equity:			
Preferred stock, par value \$.01; 200,000 authorized, 0			
issued and outstanding.....	--	--	
Common stock, par value \$.01; 25,000,000 authorized,			
10,868,046 issued, 9,868,046 outstanding at December 31,			
1998, 10,325,280 issued and outstanding at December 31,			
1997.....	108,680	103,253	
Additional paid-in capital.....	79,220,252	71,343,925	
Treasury stock, 1,000,000 shares at cost.....	(19,339,901)	--	
Deferred compensation.....	--	(12,408)	
Accumulated other comprehensive income.....	232,235	43,521	
Accumulated deficit.....	(2,191,889)	(7,063,503)	
	-----	-----	
Total stockholders' equity.....	58,029,377	64,414,788	

-----	-----
\$152,678,606	\$71,166,934
=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

27

30

SABRATEK CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Net sales.....	\$66,909,605	\$43,058,601	\$17,696,786
Cost of sales.....	29,965,645	18,719,987	8,748,364
Provision for inventory reserve.....	2,116,048	--	--
Gross margin.....	34,827,912	24,338,614	8,948,422
Selling, general and administrative expenses.....	26,247,705	18,256,249	8,474,408
Operating income (loss).....	8,580,207	6,082,365	474,014
Other income (expenses):			
Interest income.....	3,401,632	1,240,766	617,157
Interest expense.....	(3,623,175)	(44,891)	(318,557)
Stock appreciation rights.....	--	--	(1,628,463)
Other.....	--	--	(2,267)
Net income (loss) before taxes.....	\$ 8,358,664	\$ 7,246,457	\$ (858,116)
Provision for income taxes.....	3,487,050	--	--
Net income (loss).....	\$ 4,871,614	\$ 7,246,457	\$ (858,116)
Basic income (loss) per share.....	\$ 0.47	\$ 0.75	\$ (0.17)
Basic weighted average shares outstanding.....	10,316,418	9,614,278	5,142,763
Diluted income (loss) per share.....	\$ 0.44	\$ 0.67	\$ (0.17)
Diluted weighted average shares outstanding.....	11,145,926	10,894,615	5,142,763

</TABLE>

SABRATEK CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Net income (loss).....	\$4,871,614	\$7,246,457	\$ (858,116)
Other comprehensive income, net of tax:			
Unrealized holding gains arising during period.....	246,559	44,562	4,140
less: reclassification adjustment for gains included in net income (loss).....	(57,845)	(5,181)	--
Other comprehensive income.....	\$ 188,714	\$ 39,381	\$ 4,140
Comprehensive income (loss).....	\$5,060,328	\$7,285,838	\$ (862,256)

</TABLE>

See accompanying notes to consolidated financial statements.

28

31

SABRATEK CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>  
<CAPTION>

DESCRIPTION -----	PREFERRED		COMMON		ADDITIONAL PAID-IN CAPITAL -----	NOTE RECEIVABLE -----	DEFERRED COMPENSATION -----	TREASURY STOCK -----
	SHARES -----	AMOUNT -----	SHARES -----	AMOUNT -----				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995.....	1,768,129	\$17,681	1,718,458	\$ 17,185	\$10,708,671	\$ (112,500)	\$ --	\$ --
Issuance of common shares, net of offering costs of 1,562,932.....	--	--	3,042,245	30,422	26,783,907	--	--	--
Issuance of common shares for services.....	--	--	124,488	1,245	591,255	--	--	--
Conversion of long-term debentures.....	--	--	1,331,162	13,312	3,992,662	--	--	--
Conversion of preferred stock.....	(1,768,129)	(17,861)	1,838,113	18,381	(700)	--	--	--
Exercise of warrants and options.....	--	--	142,515	1,425	668,702	--	--	--
Settlement of note receivable.....	--	--	--	--	--	112,500	--	--
Issuance of warrant.....	--	--	--	--	127,000	--	--	--
Deferred compensation, net.....	--	--	--	--	19,853	--	(17,371)	--
Other comprehensive income.....	--	--	--	--	--	--	--	--
Net Loss.....	--	--	--	--	--	--	--	--
Balance at December 31, 1996.....	--	--	8,196,981	81,970	42,891,350	--	(17,371)	--
Issuance of common stock, purchase of Rocap.....	--	--	131,593	1,316	2,898,665	--	--	--
Issuance of common stock, net of offering costs (of \$1,666,491).....	--	--	1,291,486	12,915	21,567,342	--	--	--
Exercise of warrants and options.....	--	--	703,889	7,039	3,957,448	--	--	--
Issue common stock, Stock Purchase Plan.....	--	--	1,331	13	29,120	--	--	--
Deferred compensation, stock options.....	--	--	--	--	--	--	4,963	--
Other comprehensive income.....	--	--	--	--	--	--	--	--
Net income.....	--	--	--	--	--	--	--	--
Balance at December 31, 1997.....	--	--	10,325,280	103,253	71,343,925	--	(12,408)	--
Repurchase of common stock.....	--	--	--	--	--	--	--	(19,339,901)
Other comprehensive income.....	--	--	--	--	--	--	--	--
Exercise of warrants.....	--	--	248,573	2,485	1,139,401	--	--	--
Exercise of stock options.....	--	--	281,990	2,820	2,996,056	--	--	--
Issue common stock, Stock Purchase Plan.....	--	--	12,203	122	266,228	--	--	--
Forfeiture of deferred compensation, stock options.....	--	--	--	--	(12,408)	--	12,408	--
Tax benefit from exercise of stock options.....	--	--	--	--	3,487,050	--	--	--
Net income.....	--	--	--	--	--	--	--	--
Balance at December 31, 1998.....	--	--	10,868,046	\$108,680	\$79,220,252	\$ --	\$ --	\$ (19,339,901)

<CAPTION>

DESCRIPTION -----	ACCUMULATED OTHER COMPREHENSIVE INCOME -----		TOTAL STOCKHOLDERS EQUITY (DEFICIT) -----	
	<C>	<C>	<C>	<C>
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1995.....	\$ --	\$ (13,451,844)	\$ (2,820,807)	
Issuance of common				

shares, net of offering costs of 1,562,932.....	--	--	26,814,329
Issuance of common shares for services.....	--	--	592,500
Conversion of long-term debentures.....	--	--	4,005,974
Conversion of preferred stock.....	--	--	--
Exercise of warrants and options.....	--	--	670,127
Settlement of note receivable.....	--	--	112,500
Issuance of warrant.....	--	--	127,000
Deferred compensation, net.....	--	--	2,482
Other comprehensive income.....	4,140	--	4,140
Net Loss.....	--	(858,116)	(858,116)
-----			
Balance at December 31, 1996.....	4,140	(14,309,960)	28,650,129
Issuance of common stock, purchase of Rocap.....	--	--	2,899,981
Issuance of common stock, net of offering costs (of \$1,666,491).....	--	--	21,580,257
Exercise of warrants and options.....	--	--	3,964,487
Issue common stock, Stock Purchase Plan.....	--	--	29,133
Deferred compensation, stock options.....	--	--	4,963
Other comprehensive income.....	39,381	--	39,381
Net income.....	--	7,246,457	7,246,457
-----			
Balance at December 31, 1997.....	43,521	(7,063,503)	64,414,788
Repurchase of common stock.....	--	--	(19,339,901)
Other comprehensive income.....	188,714	--	188,714
Exercise of warrants.....	--	--	1,141,886
Exercise of stock options.....	--	--	2,998,876
Issue common stock, Stock Purchase Plan.....	--	--	266,350
Forfeiture of deferred compensation, stock options.....	--	--	--
Tax benefit from exercise of stock options.....	--	--	3,487,050
Net income.....	--	4,871,614	4,871,614
-----			
Balance at December 31, 1998.....	\$232,235	\$ (2,191,889)	\$ 58,029,377
=====			

</TABLE>

See accompanying notes to consolidated financial statements.

SABRATEK CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss).....	\$ 4,871,614	\$ 7,246,457	\$ (858,116)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization.....	2,736,167	1,174,186	402,953
Deferred compensation.....	--	4,963	2,482

Expenses paid with equity issuances.....	--	--	967,051
Stock appreciation rights expense.....	--	--	1,628,463
Tax benefit from exercise of stock options....	3,487,050	--	--
Provision for bad debts.....	332,828	296,621	70,682
Changes in assets and liabilities:			
Receivables.....	(4,378,374)	(6,836,950)	(7,045,498)
Notes receivables.....	(1,503,776)	--	--
Inventories.....	(10,254,267)	(8,656,281)	(3,223,590)
Prepaid and other.....	(1,987,586)	(492,203)	(544,268)
Accounts payable.....	3,191,643	812,180	(129,847)
Accrued liabilities.....	(419,973)	1,082,823	848,119
Other.....	130,109	(68,406)	(297,543)
Long term obligation.....	(163,345)	257,777	--
Net cash used in operating activities.....	(3,957,910)	(5,178,833)	(8,179,112)
Cash flows from investing activities:			
Purchases of property, plant and equipment.....	(4,928,382)	(2,077,603)	(1,275,221)
Issuance of notes receivable.....	(4,811,325)	--	(200,000)
Purchase of intangibles.....	(19,875,704)	(8,447,648)	(42,203)
Purchase of marketable securities.....	(27,685,689)	(3,924,994)	(6,359,146)
Sale and maturity of marketable securities.....	3,996,000	5,323,271	--
Purchase of CMS Inc., net of cash.....	(239,804)	--	--
Purchase of Rocap assets, net of cash.....	--	(1,620,536)	--
Net cash used in investing activities.....	(53,544,904)	(10,747,510)	(7,876,570)
Cash flows from financing activities:			
Proceeds from issuance of debt.....	--	--	1,757,313
Repayment of debt.....	(18,761)	(371,013)	(974,221)
Proceeds from issuance of long term debt.....	82,056,527	--	--
Payment of stock appreciation rights.....	--	--	(1,628,463)
Payments of capital leases, net.....	(30,760)	(125,136)	(144,612)
Proceeds from exercise of stock options and warrants.....	4,407,112	3,964,487	--
Proceeds from issuances of common stock, net.....	--	21,609,390	27,484,456
Purchase of treasury stock.....	(19,339,901)	--	--
Net cash provided by financing activities.....	67,074,217	25,077,728	26,494,473
Increase in cash and cash equivalents.....	9,571,403	9,151,385	10,438,791
Cash and cash equivalents at beginning of year.....	19,598,203	10,446,818	8,027
Cash and cash equivalents at end of year.....	\$ 29,169,606	\$ 19,598,203	\$10,446,818

</TABLE>

See accompanying notes to consolidated financial statements.

# SABRATEK CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) DESCRIPTION OF BUSINESS

Sabratek Corporation designs, manufactures and markets programmable electronic intravenous infusion pumps, disposable intravenous administration sets, integrated software, and related accessories, as well as pre-filled flush syringes. Sales of the products are made through distributors as well as Sabratek's own representatives. Sabratek operates in one industry segment and all assets are located in the United States.

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Presentation

Subsidiaries of Sabratek have been consolidated into the financial statements and all intercompany entries have been eliminated. Sabratek's subsidiaries include CMS Healthcare, Inc. and Sabratek Foreign Sales Corp.

#### (b) Cash and Cash Equivalents

Cash and cash equivalents represent funds in demand deposit accounts, money market accounts, commercial paper, certificates of deposit, short-term bond mutual funds, and U.S. Treasury securities to the extent they mature within 90 days from date of purchase.

#### (c) Investments in Marketable Securities

Investments in marketable securities are classified as available-for-sale and are reported at fair market value. Unrealized gains on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized.

(d) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined under the first-in, first-out ("FIFO") method.

(e) Long-lived Assets

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation and amortization is provided on a straight-line basis over the estimated useful lives. The estimated useful lives of the machinery and equipment range from 3 to 5 years. The estimated useful lives of office furniture, fixtures and equipment is 7 years. Leasehold improvements are amortized over the shorter of the assets' useful lives or the life of the lease.

Intangible assets consist of licenses and marketing rights and are being amortized over the life of the respective agreements using the straight-line method ranging from 10 to 15 years. Goodwill represents the excess of purchase price over the estimated fair value of net tangible assets acquired and is being amortized over 15 years using the straight-line method. Patent costs are amortized over 16 years.

Sabratek has assessed that no permanent impairment of the value of the long-lived assets has occurred. Such assessment includes consideration of possible obsolescence, demand, new technology, competition, and other pertinent economic factors and trends that may have an impact on the value or remaining lives of the assets. Long-lived assets are reviewed for impairment in value based upon undiscounted future cash flows, and appropriate losses are recognized whenever the carrying amount of an asset may not be recovered.

31

34

SABRATEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(f) Warranty

Accruals for estimated warranty costs are recorded at the time of sale and periodically adjusted to reflect actual experience.

(g) Revenue Recognition

Revenues are recognized when products are shipped with allowances for discounts, estimated warranty costs and estimated returns recorded at the time of sale. Revenues from marketing and clinical consulting services are recorded when earned and as the related costs are incurred. Revenues from licenses are recorded on a straightline basis over the license term.

(h) Research and Development

Research and development costs are expensed as incurred. Research and development costs amounted to \$2,731,393, \$1,812,576 and \$969,059 in 1998, 1997 and 1996, respectively.

(i) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Computation of Net Income Per Share and Net Loss Per Share

The reconciliation between basic and diluted income (loss) per share for the years ended December 31, 1998, 1997 and 1996 are as follows:

<TABLE>

<CAPTION>

	1998		
	INCOME (LOSS)	SHARES	PER SHARE
<S>	<C>	<C>	<C>
Basic income per share			
Net income.....	\$4,871,614	10,316,418	\$ 0.47
Effect of dilutive securities.....	--	829,508	--
Diluted income per share.....	\$4,871,614	11,145,926	\$ 0.44

</TABLE>

32

35

SABRATEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

<TABLE>

<CAPTION>

	1997		
	INCOME (LOSS)	SHARES	PER SHARE
<S>	<C>	<C>	<C>
Basic income per share			
Net income.....	\$7,246,457	9,614,278	\$ 0.75
Effect of dilutive securities.....	--	1,280,337	--
Diluted income per share.....	\$7,246,457	10,894,615	\$ 0.67

</TABLE>

<TABLE>

<CAPTION>

	1996		
	INCOME (LOSS)	SHARES	PER SHARE
<S>	<C>	<C>	<C>
Basic (loss) per share			
Net (loss).....	\$ (858,116)	5,142,763	\$ (0.17)
Effect of dilutive securities.....	--	--	--
Diluted (loss) per share.....	\$ (858,116)	5,142,763	\$ (0.17)

</TABLE>

Certain options and warrants outstanding were not included in the computation of diluted income (loss) per share because they were antidilutive. These options and warrants may have a dilutive effect in future years. The convertible debentures have been determined to be antidilutive and therefore are not reflected in the above table.

(1) Financial Instruments

Sabratek enters into forward currency exchange contracts ("Forwards") in the regular course of business to minimize its exposure against raw material purchases denominated in a foreign currency. Forward exchange contracts related to raw material and fixed asset purchases are recognized as adjustments to the bases of the underlying assets. The Forwards are not used by Sabratek for trading or speculative purposes. At December 31, 1998 and December 31, 1997, Sabratek had Forwards outstanding to purchase foreign currency at a contracted amount of \$994,627 and \$2,603,412, respectively. The spot rate at December 31, 1998 and December 31, 1997, would require Sabratek to exchange \$1,012,024 and \$2,528,046, respectively for such currency.

(3) INVESTMENTS IN MARKETABLE SECURITIES

The following table summarizes short-term and long-term investments in marketable securities as of December 31:



<TABLE>  
<CAPTION>

	1998	1997
	----	----
<S>	<C>	<C>
Maturing in less than one year.....	\$ 6,058,200	\$5,004,390
Maturing in one to two years.....	22,824,593	--
	-----	-----
Total.....	\$28,882,793	\$5,004,390
	=====	=====

</TABLE>

Investments in marketable securities are comprised of certificates of deposit, commercial paper, U.S. Treasury securities and asset backed securities. These securities are classified as available-for-sale and are reported at fair market value. At December 31, 1998 and 1997, unrealized gains of \$232,235 and \$43,521 respectively, were recorded in stockholders' equity.

33

36

# SABRATEK CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

### (4) INVENTORIES

Inventories at December 31 are as follows with 1998 shown net of the provision for inventory reserve:

<TABLE>  
<CAPTION>

	1998	1997
	----	----
<S>	<C>	<C>
Raw materials.....	\$ 9,532,192	\$ 7,391,756
Work-in-process.....	4,944,983	2,497,298
Finished goods.....	9,495,551	3,829,405
	-----	-----
	\$23,972,726	\$13,718,459
	=====	=====

</TABLE>

### (5) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including capital leases, at December 31 is as follows:

<TABLE>  
<CAPTION>

	1998	1997
	----	----
<S>	<C>	<C>
Machinery and equipment.....	\$ 5,015,406	\$ 2,787,279
Furniture and fixtures.....	2,594,210	1,341,200
Leasehold improvements.....	2,176,143	591,886
	-----	-----
	9,785,759	4,720,365
Less accumulated depreciation.....	2,167,329	1,174,079
	-----	-----
	\$ 7,618,430	\$ 3,546,286
	=====	=====

</TABLE>

Depreciation expense for years ended December 31, 1998, 1997 and 1996 amounted to \$993,250, \$538,672 and \$402,337, respectively.

### (6) NOTES RECEIVABLE

In October, 1998, Sabratek entered into a Standby Senior Credit Facility with Unitron whereby Sabratek, at its sole discretion, may lend up to \$10,000,000 at an interest rate of 8% per annum. As of December 31, 1998, Sabratek was owed \$3,066,203 under the facility which matures on October 15, 2003. In addition, Sabratek was owed \$701,334 and \$233,334 as of December 31, 1998 and 1997, respectively, for rights to certain products granted under a 2-year license agreement to Unitron. Amounts due under the license agreement must be satisfied in cash or execution of a promissory note bearing interest at the prime lending rate no later than June 30, 2000.

In November, 1998, Sabratek entered into a Standby Senior Credit Facility with Collaborations in Healthcare, LLC whereby Sabratek may lend up to \$4,000,000 at an interest rate of 8% per annum. As of December 31, 1998,

Sabratek was owed \$1,803,023 under the facility which matures on November 23, 2001. Simultaneously, the parties entered into a Unit Option Agreement whereby Sabratek has the right to acquire Collaborations in Healthcare, LLC on or before November 23, 2003, for cash or common stock of Sabratek, at a purchase price formula set forth in the Unit Option Agreement.

As of December 31, 1998, Sabratek was owed \$977,875 by GDS for amounts payable to Sabratek pursuant to the Exclusive Supply and Distribution Agreement entered into in August 1997. No amounts were owed to Sabratek by GDS under this agreement as of December 31, 1997.

(7) GOODWILL

On July 23, 1998, Sabratek purchased all of the outstanding common stock of CMS Healthcare, Inc. ("CMS"), a Florida corporation, which provides utilization review services. Sabratek paid \$239,804 in cash and fees, net of cash acquired, for all of the outstanding common stock of CMS. The acquisition was

34

37

SABRATEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

accounted for as a purchase and has resulted in \$263,675 in goodwill as of December 31, 1998. Operating results from the date of acquisition are included in the consolidated financial statements. Sabratek could be obligated to make additional payments to the former stockholders of CMS pursuant to an earnout formula on pre-tax earnings over a specified period of time.

On February 25, 1997, Sabratek purchased substantially all of the assets of Rocap, Inc., a Massachusetts corporation, which produces pre-filled flush syringes. Sabratek issued 131,593 shares of common stock, cash and assumed liabilities for a total purchase price of \$5,452,939. The acquisition was accounted for as a purchase and has resulted in \$4,592,262 of goodwill.

Accumulated amortization of goodwill was \$577,652 and \$248,160 at December 31, 1998 and 1997, respectively.

(8) INTANGIBLES

In November, 1998, Sabratek entered into a Software License and Marketing Agreement with HealthMagic, Inc. Under the terms of the agreement, Sabratek has paid a cash license fee of \$10,000,000 for the exclusive rights to certain software applications and related documentation. The agreement has a stated term of 99 years, however, the license fee will be amortized over an estimated economic life of 10 years. In addition, Sabratek received a Stock Purchase Warrant from HealthMagic, Inc. for 448,507 shares, representing 11.11% of the issued and outstanding common stock of HealthMagic, Inc., at an exercise price of \$11.15. The warrant expires November 18, 2005.

In August 1997, Sabratek entered into a supply and distribution agreement with GDS. Under the terms of the agreement, as amended, Sabratek has paid \$6,501,925 for the 10-year exclusive rights to certain products. Sabratek also entered into an option agreement with GDS's stockholders which gives Sabratek the right to purchase the outstanding common stock of GDS in the future. Under certain circumstances, GDS's stockholders have the right, no earlier than the second quarter of 1999, to induce the stock purchase option.

In July 1997, Sabratek entered into a license agreement with Unitron Medical Communications, Inc., a Florida corporation, doing business as MOON Communications ("MOON"). Under the terms of the agreement, Sabratek has paid \$7,000,000 for a 15-year technology license. Sabratek also entered into an agreement with MOON's stockholders which, as renegotiated in January 1999, gives Sabratek the right to purchase MOON on or before July 15, 1999. Under certain circumstances, MOON stockholders have the right to induce the purchase after July 15, 1999. In January, 1998, Sabratek entered into an Exclusive Sales and Marketing Agreement whereby Sabratek acquired certain rights to Unitron's customer database for payments of \$2,700,000 made by Sabratek during 1998.

The following table summarizes intangibles at December 31,

<TABLE>

<CAPTION>

	1998	1997
	----	----
<S>	<C>	<C>
Prepaid licenses and marketing rights.....	\$29,507,155	\$8,633,951
Patent costs.....	55,284	55,284
	-----	-----
Less accumulated amortization.....	1,497,073	387,354

-----	-----
\$28,065,367	\$8,301,881
=====	=====

</TABLE>

# (9) CONVERTIBLE DEBENTURES

In April, 1998, Sabratek sold in an institutional private placement, 6% Convertible Notes ("Notes") in an aggregate principal amount of \$85,000,000. The Notes are unsecured and mature on April 15, 2005. Interest is payable at a fixed rate of 6% on April 15 and October 15 of each year, and commenced on October 15, 1998. The Notes are convertible at any time prior to maturity at the option of the holder into

35

38

## SABRATEK CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

shares of common stock of Sabratek at a conversion price of \$40.46 per share. Sabratek may redeem the Notes, in whole or in part, at any time after April 18, 2001.

# (10) CAPITAL STOCK TRANSACTIONS

During September, 1998, Sabratek purchased 1,000,000 shares of its outstanding common stock at an aggregate price of \$19,339,901, pursuant to a repurchase program adopted by Sabratek's Board of Directors. The shares are reported at cost as treasury stock on the Balance Sheet.

In August, 1998, Sabratek designated the relative rights and preferences of a new Class of Series B Preferred Stock and adopted a Shareholder Rights Plan. Pursuant to such Plan, Sabratek's Board of Directors declared a dividend of one right for each share of Sabratek's common stock outstanding on September 4, 1998. Each right gives the holder thereof the opportunity to purchase one one-hundredth of one share of Sabratek's new authorized Series B Preferred Stock at a price of \$150 (as adjusted from time to time) upon the occurrences of certain events specified in the Plan. The Plan can be rescinded at the discretion of Sabratek's Board of Directors.

In April, 1997, Sabratek completed an underwritten public offering of 1,291,486 primary shares of common stock and 176,574 shares of common stock by and for the account of existing stockholders at a price to the public of \$18.00 per share. Net proceeds to Sabratek were \$21,580,257.

In June, 1996, Sabratek completed an underwritten initial public offering of 2,785,000 shares of common stock, par value \$0.01, at a price of \$10.00 per share, with proceeds to Sabratek of \$26,737,500 after underwriters' discounts and commissions.

In March, 1996, Sabratek issued 167,245 shares of common stock at a per share price of approximately \$9.80, resulting in gross proceeds to Sabratek of \$1,639,761.

In April, 1996, Sabratek executed a 1-for-3.173 reverse stock split of its Common Stock and Series A convertible preferred stock. All references in the financial statements to share and per share data retroactively reflect the reverse stock split. Also in April, Sabratek filed a Restated Certificate of Incorporation authorizing an increase in the number of authorized shares of common stock to 25,000,000, \$0.01 par value, and preferred stock to 12,500,000, \$0.01 par value. In October, 1996, Sabratek filed a Certificate of Elimination to rescind its Preferred Stock Certificate of Designation.

36

39

## SABRATEK CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table of warrants gives effect to the 1996 anti-dilution adjustment on the conversion of preferred stock warrants to common stock warrants. The anti-dilution adjustment resulted in 19,849 additional shares of common stock issuable upon the exercise of certain warrants and changed the exercise price from \$4.76 to \$4.55.

<TABLE>

<CAPTION>

PREFERRED STOCK

COMMON STOCK

	NUMBER OF SHARES	AVERAGE PRICE	NUMBER OF SHARES	AVERAGE PRICE
<S>	<C>	<C>	<C>	<C>
Outstanding at December 31, 1995.....	451,348	4.55	152,698	4.71
Converted to Common.....	(451,348)	4.55	451,348	4.55
Issued.....	--	--	50,000	13.00
Exercised.....	--	--	(86,537)	4.57
Outstanding at December 31, 1996.....	--	--	567,509	5.33
Granted.....	--	--	--	--
Exercised.....	--	--	(205,315)	4.54
Expired.....	--	--	(1,554)	4.55
Outstanding at December 31, 1997.....	--	--	360,640	5.79
Granted.....	--	--	--	--
Exercised.....	--	--	(248,573)	4.59
Expired.....	--	--	--	--
Outstanding at December 31, 1998.....	--	--	112,067	8.44

</TABLE>

#### (11) STOCK OPTION PLAN

Sabratek adopted the Amended and Restated 1993 Stock Option Plan (the Stock Option Plan) which provided for the granting of stock options to certain employees, non-employee consultants, and directors of Sabratek. Options vest over various periods as defined in the agreements and expire as determined by the Board on an individual basis, but not to exceed 10 years. At December 31, 1998, 3,800,000 shares of common stock were reserved for issuance on the exercise of stock options.

Sabratek applies APB Opinion No. 25 and related interpretations in accounting for its Stock Option Plan. Accordingly, no compensation cost has been recorded. Had compensation cost for Sabratek's Stock Option Plan been determined consistent with FASB Statement No. 123, Sabratek's net income (loss) and income (loss) per share would have been as follows:

		1998	1997	1996
		----	----	----
<S>	<C>	<C>	<C>	<C>
Net income (loss)	As reported.....	\$ 4,871,614	\$ 7,246,457	\$ (858,116)
	Pro forma.....	\$ (3,928,099)	\$ (1,260,755)	\$ (2,205,953)
Net income (loss) per share diluted	As reported.....	\$ 0.44	\$ 0.67	\$ (0.17)
	Pro forma.....	\$ (0.38)	\$ (0.13)	\$ (0.39)

</TABLE>

Pro forma net income (loss) and income (loss) per share reflect only options granted since January 1, 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net loss amounts presented above because compensation cost is reflected over the options' vesting period of up to 4 years and compensation cost for options granted prior to January 1, 1995 is not considered.

37

40

#### SABRATEK CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The compensation cost of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996.

		1998	1997	1996
		----	----	----
<S>	<C>	<C>	<C>	<C>
Dividend yield.....		0%	0%	0%
Volatility.....		79%	63%	67%
Risk-free interest rate.....		6%	6%	7%
Expected term in years.....		5.5	5.7	4.2

</TABLE>

A summary of the status of Sabratek's Stock Option Plan as of December 31, 1998, 1997 and 1996 and changes during the years then ended is presented below:

<TABLE>  
<CAPTION>

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>
Outstanding at December 31, 1995.....	732,636	4.78
Granted.....	581,590	7.10
Exercised.....	(55,978)	4.90
Expired.....	(2,994)	5.29
Outstanding at December 31, 1996.....	1,255,254	5.85
Granted.....	1,752,404	22.73
Exercised.....	(498,574)	6.08
Expired.....	(6,853)	11.01
Outstanding at December 31, 1997.....	2,502,231	17.60
Granted.....	378,200	22.84
Exercised.....	(281,990)	10.63
Expired.....	(208,196)	20.49
Outstanding at December 31, 1998.....	2,390,245	19.00

</TABLE>

The per share weighted average fair value of options granted was \$15.51, \$14.00 and \$4.11 in 1998, 1997, and 1996, respectively.

The following table summarizes information about stock options outstanding as of December 31, 1997:

<TABLE>  
<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
		WEIGHTED-AVG. REMAINING CONTRACTUAL LIFE	WEIGHTED-AVG. EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVG. EXERCISE PRICE
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING				
<S>	<C>	<C>	<C>	<C>	<C>
\$ 4.76.....	417,634	6.7	\$ 4.76	191,132	\$ 4.76
\$ 8.375 to 17.00.....	129,716	7.6	9.80	72,783	9.28
\$21.00 to 23.3125.....	1,517,758	8.7	22.10	362,394	22.08
\$24.00 to 32.50.....	325,137	8.8	26.55	143,143	28.05
\$ 4.76 to 32.50.....	2,390,245	8.3	19.00	769,452	17.68

</TABLE>

#### (12) EMPLOYEE BENEFIT PLANS

Sabratek implemented a defined contribution plan during 1995 pursuant to section 401(k) of the Internal Revenue Code, whereby participants may contribute up to 15 percent of compensation, but not in excess of the maximum allowed under the Code. The plan includes a discretionary employer matching contribution

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

program as determined by the Board of Directors. In 1998, Sabratek contributed \$105,514 to the plan participants' accounts. In 1997 and 1996, no matching contributions were made to plan participants' accounts.

Sabratek adopted the Sabratek Corporation Employee Stock Purchase Plan during 1997 whereby employees, after 90 days of service, can contribute up to 10% of compensation to the purchase of Sabratek stock. The stock is purchased quarterly at a price equal to 85% of the lower of, the closing price on either the first or the last trading day of the quarter. There have been 150,000 shares designated for this plan and 13,534 shares have been issued as of December 31, 1998.

In August, 1998, Sabratek established a non-qualified deferred compensation plan for qualifying officers whereby Sabratek and the participant contractually agree to pay a pre-determined portion of the participant's salary or bonus on a pre-determined future date or schedule of dates. As of December 31, 1998, \$63,413 in officers' compensation had been deferred under the plan.

(13) STOCK APPRECIATION RIGHTS

In July, 1996, Sabratek paid, in full, stock appreciation rights totaling \$1,628,463 in aggregate, which were issued pursuant to three separate agreements during 1995. The agreements provided for a maximum appreciation of \$4.76 per share and required payment at the time of certain qualifying events, or upon demand of the holder. The obligation created with respect to the agreements resulted in a non-recurring charge to other income (expenses) in the Statement of Operations for 1996.

(14) INCOME TAXES

Total income tax expense for the years ended December 31, 1998, 1997 and 1996 was allocated as follows:

<TABLE>

<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Income from continuing operations.....	\$ --	\$--	\$--
Stockholder's equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes.....	3,487,050	--	--
	-----	--	--
	\$3,487,050	\$	\$
	=====	==	==

</TABLE>

There is no current or deferred tax expense for the years ended December 31, 1998, 1997 and 1996. Sabratek utilized net operating loss carryforwards in 1998 and 1997 and was in a loss position in 1996. The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, if appropriate. Realization of the future tax benefits is dependent on many factors, including Sabratek's ability to generate taxable income within the allowable net operating loss carryforward period. Management has considered these factors in reaching its conclusion as to the valuation allowance for

39

42

SABRATEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

financial reporting purposes. The income tax effect of temporary differences comprising the deferred tax assets and deferred tax liabilities at December 31, is as follows:

<TABLE>

<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Deferred tax assets:			
Net operating loss carryforwards.....	\$ 3,963,000	\$ 5,918,000	\$ 5,443,000
Research and development credit carryforwards.....	336,000	230,000	192,000
Minimum tax credit carryforwards.....	121,000	--	--
Inventory reserve.....	884,000	--	--
Other.....	426,000	409,000	216,000
	-----	-----	-----
	5,730,000	6,557,000	5,851,000
Less: Valuation allowance.....	(5,730,000)	(6,557,000)	(5,851,000)
	-----	-----	-----
Net deferred taxes.....	\$ --	\$ --	\$ --
	=====	=====	=====

</TABLE>

A deferred tax asset stemming from Sabratek's net operating loss carryforward, research and development credit carryforward, and other accruals has been reduced by a valuation account to zero due to uncertainties regarding the utilization of the deferred assets. The deferred tax asset and the corresponding valuation allowance were approximately \$5,730,000 and \$6,557,000 at December 31, 1998 and 1997, respectively. The valuation allowance was decreased by \$827,000 in 1998 and increased by \$706,000 in 1997.

A reconciliation between the statutory federal income tax rate and the effective tax expense for each of the three years ended December 31 follows:

<TABLE>  
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Computed "expected" tax expense (benefit).....	\$ 2,842,000	\$ 2,536,000	\$ (300,000)
Stock option activity.....	(1,737,000)	(3,749,000)	(349,000)
Increase (decrease) in valuation allowance.....	(827,000)	706,000	649,000
State income taxes, net of federal benefit.....	185,000	507,000	--
Credit generation.....	(56,000)	--	--
Other.....	(407,000)	--	--
	-----	-----	-----
Income tax expense.....	\$ --	\$ --	\$ --
	=====	=====	=====

</TABLE>

Previous sales of Sabratek's common stock have resulted in an ownership change for Sabratek, as defined for tax purposes. As a result, an annual limitation exists on the utilization of the net operating loss carryforwards and credit carryforwards. This limitation may cause a portion of the existing net operating loss and credit carryforwards to expire prior to utilization.

The net operating loss and research and development credit carryforwards will expire as follows:

<TABLE>  
<CAPTION>

	NET OPERATING LOSS	RESEARCH AND DEVELOPMENT
	-----	-----
<S>	<C>	<C>
2007.....	--	2,000
2008.....	1,616,000	47,000
2009.....	2,838,000	53,000
2010.....	2,551,000	63,000
2011.....	1,365,000	23,000
2012.....	1,118,000	92,000
2018.....	--	56,000
	-----	-----
Total.....	\$9,488,000	\$336,000
	=====	=====

</TABLE>

40

43

# SABRATEK CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

### (15) SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

<TABLE>  
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Cash paid during the year for interest.....	\$2,560,676	\$44,891	\$133,103

</TABLE>

In conjunction with the CMS Healthcare, Inc. purchase in July 1998, Sabratek paid \$239,804 in net cash and fees for all of the outstanding common stock.

In conjunction with the Rocap asset purchase in February 1997, Sabratek issued 131,593 shares of common stock with a market value of \$2,899,981 and assumed liabilities of \$1,120,396.

In August 1997, Sabratek utilized an outstanding note receivable from GDS for \$200,000 as part of its consideration paid for prepaid license fees.

In 1996, 124,488 shares of common stock were issued in satisfaction of accrued obligations in the amount of \$592,500 for services rendered in 1995.

In 1996, 1,331,451 shares of common stock were issued in exchange for the retirement of \$3,597,793 in long-term debt principal and \$364,210 in accrued interest on long-term debt. The number of shares issued included the conversion premium originally provided for in the debt instruments.

Capital lease obligations of \$116,409 and \$11,547 were incurred in 1998 and 1997, respectively when Sabratek entered into leases primarily for machinery,

equipment, furniture and fixtures.

(16) RELATED PARTIES

Sabratek is affiliated through common ownership with Dak-Tech Ltd., an Israeli company. Dak-Tech Ltd. provides Sabratek with manufactured components. Two officers of Sabratek own in aggregate 67% of the Dak-Tech Ltd. stock. Amounts included as cost of sales from these purchases were \$1,064,464, \$521,248, and \$384,800 for the years ended December 31, 1998, 1997 and 1996, respectively. At December 31, 1998 and 1997, Sabratek was indebted to Dak-Tech Ltd. for receipts of various inventory components in the amount of \$1,929 and \$26,701, respectively.

During 1996, Sabratek forgave the repayment of a loan, interest on the loan and certain advances to a stockholder who is an officer of Sabratek totaling \$336,939, in aggregate.

(17) BUSINESS AND CREDIT CONCENTRATIONS

As of December 31, 1998 and 1997, individual customers representing at least 10% of total receivables accounted for \$4,715,107 or 24% (two customers) and \$4,272,876 or 28% (two customers) of total accounts receivable, respectively. Aggregate sales to individual customers representing at least 10% of total sales amounted to \$16,985,379 (two customers) and \$20,018,557 (two customers), for the years ended December 31, 1998 and 1997, respectively.

Sabratek's customers are based throughout the world with 4%, 3% and 9% of sales to international markets for the years ended December 31, 1998, 1997 and 1996, respectively. Customers are not concentrated in any specific geographic location. The customer base is very specific, however, to the health care industry as Sabratek's products are used primarily by hospitals and alternate-site healthcare settings such as nursing homes, home health care companies, long-term care facilities and clinics.

41

44

SABRATEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(18) FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of Sabratek's financial instruments is as follows:

<TABLE>

<CAPTION>

	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Assets:				
Cash and cash equivalents.....	29,169,606	\$29,169,606	\$19,598,203	\$19,598,203
Marketable securities.....	28,882,793	28,882,793	5,004,390	5,004,390
Liabilities:				
Convertible debentures.....	85,000,000	58,420,500	--	--
Off-balance sheet financial instruments:				
Forward currency exchange contracts.....	--	17,397	--	(75,366)

</TABLE>

Fair values were determined as follows:

Cash and cash equivalents approximate fair value because of the short maturity of these instruments. Marketable securities are based on quoted market prices for these or similar instruments and are considered available-for-sale. Convertible debentures are estimated based on the quoted market price. Forward currency exchange contracts are estimated based on the spot rate of the respective currency.

(19) COMMITMENTS AND CONTINGENCIES

In March 1997, Sabratek entered into a bank credit agreement which matures in April, 1999, and provides for up to \$9,500,000 of available borrowing at the bank's prime rate. As of December 31, 1998, no funds have been borrowed under the agreement.

Sabratek leases its facilities under non-cancelable operating lease



arrangements. Rent expense charged to operations for the years ended December 31, 1998, 1997 and 1996 amounted to \$671,532, \$404,703, and \$221,035, respectively.

At December 31, 1998 minimum lease commitments under operating leases that have initial or remaining non-cancelable terms in excess of one year were as follows:

<TABLE>	
<CAPTION>	
	YEARS ENDING DECEMBER 31, -----
<S>	
1999.....	\$1,324,041
2000.....	1,100,291
2001.....	1,080,891
2002.....	1,106,341
2003.....	866,920
	-----
Total minimum lease payments.....	\$5,478,484
	=====
</TABLE>	

On February 5, 1997, SIMS Deltec filed a complaint in the United States District Court for the District of Minnesota alleging that Sabratek's manufacture, use and/or sale of the MediVIEW software in conjunction with its infusion pumps infringes on a patent entitled "Systems and Methods of Communicating with Ambulatory Medical Devices Such as Drug Delivery Devices" previously issued to SIMS Deltec. Subsequently, SIMS Deltec filed other pleadings that raised additional claims against Sabratek and three of its employees including trade secret misappropriation, unfair competition and interference with SIMS Deltec's customers. SIMS Deltec seeks injunctive relief, unspecified monetary damages and costs. In addition, SIMS Deltec filed for a preliminary injunction against Sabratek seeking to prevent on a preliminary basis Sabratek's

42

45

#### SABRATEK CORPORATION

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

manufacture and sale of the MediVIEW system. On August 4, 1997, the District Court denied the motion for preliminary injunction. Additionally, one of the claims against a Sabratek employee has been dismissed with prejudice. Sabratek and the individual defendants intend to vigorously defend against the allegations made by SIMS Deltec. Protracted litigation or an adverse outcome in this matter could have a material adverse impact on Sabratek's business, financial position and results of operations.

In addition, on June 27, 1997, Sabratek filed a complaint against SIMS Deltec which is currently pending in the United States District Court for the District of Minnesota alleging that SIMS Deltec employees have made misstatements about Sabratek's products. Sabratek has stated claims under the Federal Lanham Act to stop SIMS Deltec's improper disparagement and has requested preliminary and permanent injunctive relief, monetary damages and costs.

Sabratek was served with a complaint on January 27, 1999, alleging that Sabratek and seven officers and former officers violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Securities Exchange Act of 1934. The complaint alleges that defendants issued a series of false and misleading statements concerning Sabratek's business, its products and its prospects for future profitability.

The complaint seeks to recover damages on behalf of all persons who purchased shares of Sabratek's common stock between January 13, 1998 and November 24, 1998, although no court has determined that these persons constitute a proper class. The complaint was filed in the United States District Court for the Northern District of Illinois (Chu v. Sabratek Corporation, et al., Docket No. 99 C 0351). Neither Sabratek nor the individual defendants have yet responded to the complaint, but all parties intend to vigorously defend against the allegations contained in the complaint. Protracted litigation or an adverse outcome in this matter could have a material adverse impact on Sabratek's business, financial position and results of operations.

It is the position of management based on a review, including review by outside counsel, that it is not possible to estimate the amount of loss, if any, that might result from the resolution of the above proceedings in an adverse manner. Accordingly, no provision for these proceedings has been included in the consolidated financial statements. Sabratek is also a party to routine

litigation in the ordinary course of business, none of which, if determined adversely to Sabratek, would individually or in the aggregate have a material adverse effect on Sabratek.

43

46

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON  
ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section of Sabratek's Proxy Statement dated in 1999 entitled "Election of Directors" is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The section of the Proxy Statement dated in 1999 entitled "Executive Compensation" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section of the Proxy Statement dated in 1999 entitled "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The section of the Proxy Statement dated in 1999 entitled "Certain Relationships and Related Transactions" is incorporated herein by reference.

44

47

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Exhibits

(a) (1) and (2). Sabratek's audited financial statements are included herewith as Item 8 beginning on page 27.

(a) (3) and (c). Sabratek filed a Current Report on Form 8-K with the SEC on November 24, 1998.

Exhibits, numbered in accordance with Item 601 of Regulation S-K.

<TABLE>  
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENTS	INCORPORATION BY REFERENCE (IF APPLICABLE)
<C>	<S>	<C>
3.1	Articles of Incorporation, Rights Agreement, Certificate of Designations	+
3.2	Amended and Restated By-laws	
4.1	Indenture, dated April 14, 1998 by and between the Company and LaSalle National Bank, as Trustee	+++++
4.2	Rights Agreement, dated August 20, 1998 by and between the Company and LaSalle National Bank, as the Rights Agent	+++++
10.1	Agreement with Americorp Financial, Inc. re: Leasing Services, dated March 22, 1995	+
10.1.1	Amendment, dated September 16, 1996, to Agreement with Americorp Financial, Inc.	+++
10.2	Intentionally Omitted	
10.3	Intentionally Omitted	
10.4	Intentionally Omitted	
10.5	Intentionally Omitted	
10.6	Intentionally Omitted	
10.7	Intentionally Omitted	
10.8	Intentionally Omitted	
10.9	Intentionally Omitted	
10.10	Intentionally Omitted	

10.11	Intentionally Omitted	
10.12	Intentionally Omitted	
10.13	Pump Contract with Chartwell Home Therapies, dated November 22, 1993	+
10.14	Sales Agreement with Pharmacy Corporation of America, dated March 17, 1995	+
10.15	Sales & Marketing Agreement with Alpha Group, dated November 6, 1995	+
10.16	Intentionally Omitted	
10.17	Intentionally Omitted	
10.18	Intentionally Omitted	
10.19	Intentionally Omitted	
10.20	Intentionally Omitted	
10.21	Intentionally Omitted	
10.22	Intentionally Omitted	
10.23	Intentionally Omitted	

</TABLE>

45

48

<TABLE>  
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENTS	INCORPORATION BY REFERENCE (IF APPLICABLE)
<C>	<S>	<C>
10.24	Intentionally Omitted	
10.25	Intentionally Omitted	
10.26	Stock Option Plan	+
10.27	Lease for Real Property located at 5601 West Howard, Niles, Illinois, dated as of May 31, 1994	+
10.27.1	Amendment, dated October 30, 1996, to Lease for Real Property located at 5601 West Howard, Niles, Illinois	+++
10.28	Employment Agreement for K. Shan Padda	
10.29	Intentionally Omitted	
10.30	Asset Purchase Agreement, dated February 25, 1997, by and among Sabratek Corporation; Rocap, Inc. and Elliott Mandell	++
10.31	Employment Agreement for Stephen L. Holden	
10.32	Employment Agreement for Elliott Mandell	
10.33	Lease Agreement for property located at 11 Sixth Road, Woburn, Massachusetts, dated February 1, 1997	++++
10.34	Lease Agreement for property located at 5 Constitution Way, Woburn, Massachusetts, dated June 26, 1995	++++
10.35	Lease Agreement for property located at 1629 Prime Court, Suite 100, Orlando, Florida, dated March 11, 1997	+++++
10.36	Lease Agreement for property located at 8350 Parkline Blvd., Orlando Florida, dated June 18, 1998	+++++++
10.37	Credit Agreement, dated as of March 26, 1997, by and between the Company as Borrower and LaSalle National Bank (formerly known as LaSalle Bank NI) as Lender	++++++
10.38	Long Term Incentive Compensation Plan	+++++++
10.39	Lease Agreement for property located at 8111 North St. Louis, Skokie, Illinois, dated May 15, 1998	+++++++
10.40	Employment Agreement for Doron C. Levitas	
10.41	Employment Agreement for Scott Skooglund	
10.42	Employment Agreement for Joseph P. Moser	
10.43	Employment Agreement for Vincent J. Capponi	
10.44	Employment Agreement for Tuan Bui	
10.45	Employment Agreement for Stephan C. Beal	
10.46	Employment Agreement for Stephen L. Axel	
10.47	Employment Agreement for Paul S. Jurewicz	
10.48	Employment Agreement for Mary Beth Blue	
10.49	Employment Agreement for Steven J. Richard	
11.1	Statement re: computation of per share earnings	

</TABLE>

46

49

<TABLE>  
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENTS	INCORPORATION BY REFERENCE (IF APPLICABLE)
<C>	<S>	<C>
21	List of Subsidiaries	
23	Consent of KPMG LLP	

- 
- + Incorporated by reference to Sabratek's Registration Statement on Form S-1, declared effective by the SEC on June 21, 1996 (File No. 333-3866).
  - ++ Incorporated by reference to Sabratek's Current Report on Form 8-K filed with the SEC on March 11, 1997.
  - +++ Incorporated by reference to Sabratek's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 filed with the SEC on March 31, 1997.
  - ++++ Incorporated by reference to Sabratek's Registration Statement on Form S-1, declared effective by the SEC on April 4, 1997 (File No. 333-23437).
  - +++++ Incorporated by reference to Sabratek's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 filed with the SEC on May 15, 1997.
  - ++++++ Incorporated by reference to Sabratek's Registration Statement on Form S-3 declared effective by the SEC on July 14, 1998.
  - +++++++ Incorporated by reference to Sabratek's Current Report on Form 8-K filed with the SEC on August 25, 1998.
  - +++++++ Incorporated by reference to Sabratek's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 filed with the SEC on August 14, 1998.
  - +++++++ Incorporated by reference to Sabratek's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 filed with the SEC on November 16, 1998.

(b) Reports on Form 8-K

Sabratek filed a Current Report on Form 8-K on November 24, 1998 announcing the suspended distribution of its Rocap flush product line due to discussions and meetings with the Food and Drug Administration.

47

50

SIGNATURES

Pursuant to the Requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SABRATEK CORPORATION

By: /s/ K. SHAN PADDA  
-----  
Chairman and Chief Executive Officer  
  
March 25, 1999  
-----  
(Date)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 25, 1999.

<TABLE>  
<CAPTION>

SIGNATURE -----	TITLE -----
<C> /s/ K. SHAN PADDA ----- K. Shan Paddda	<S> Chairman of the Board, Chief Executive Officer and Director
/s/ DORON C. LEVITAS ----- Doron C. Levitas	Vice Chairman of the Board, Chief Administrative Officer, Vice President -- International Operations, Secretary and Director
/s/ STEPHEN L. HOLDEN	President and Treasurer

----- Stephen L. Holden -----	
/s/ PAUL S. JUREWICZ ----- Paul S. Jurewicz -----	Senior Vice President and Chief Financial Officer
/s/ SCOTT SKOONGLUND ----- Scott Skooglund -----	Vice President -- Finance and Assistant Secretary, Principal Accounting Officer
/s/ WILLIAM D. LAUTMAN ----- William D. Lautman -----	Director
/s/ L. PETER SMITH ----- L. Peter Smith -----	Director
/s/ FRANCIS V. COOK, M.D. ----- Francis V. Cook, M.D. -----	Director
/s/ EDSON W. SPENCER, JR. ----- Edson W. Spencer, Jr. -----	Director
/s/ MARVIN SAMSON ----- Marvin Samson -----	Director

</TABLE>

48

51

<TABLE>

<CAPTION>

	SIGNATURE		TITLE
	-----		-----
<C>	/s/ WILLIAM H. LOMICKA ----- William H. Lomicka -----	<S>	Director
	/s/ MARK LAMPERT ----- Mark Lampert -----		Director

</TABLE>

49

AMENDED AND RESTATED BYLAWS  
OF  
SABRATEK CORPORATION

A Delaware Corporation  
(the "Corporation")  
Revised February 10, 1996

ARTICLE I.

-----

OFFICES

-----

Section 1. Registered Office. The registered office of the Corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle, State of Delaware. The name of the Corporation's registered agent at such address shall be The Corporation Trust Company.

Section 2. Other Office. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II.

-----

MEETINGS OF STOCKHOLDERS

-----

Section 1. Place and Time of Annual Meeting. An annual meeting of the stockholders shall be held for the purpose of electing directors and conducting such other business as may come before the meeting. The date, time and place of the annual meeting shall be determined by resolution of the Board of Directors. At each annual meeting, the stockholders entitled to vote shall elect a

Board of Directors and they may transact such other business as shall be stated in the notice of the meeting.

Section 2. Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called by the Chief Executive Officer or the Chairman or a Vice-Chairman of the Board and shall be called by the Chief Executive Officer or Secretary at the request in writing of stockholders owning a majority in the amount of the entire capital stock of the Corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 3. Notice. Written or printed notice of every annual or special meeting of the stockholders, stating the place, date, time, and, in the case of special meetings, the purpose or purposes, of such meeting, shall be given to each stockholder entitled to vote at such meeting not less than ten, nor more than sixty, days before the date of the meeting. All such notices shall be delivered, either personally or by mail, and if mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the stockholder at his or her address as it appears on the records of the Corporation, with postage prepaid.

Section 4. Waiver of Notice. Whenever any notice is required to be given under the provisions of the statutes, or of the Certificate of Incorporation or of these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

- 2 -

3

Section 5. Stockholder's List. The officer having charge of the stock ledger of the Corporation shall make, at least ten days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at such meeting arranged in alphabetical order, specifying the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time

thereof, and may be inspected by any stockholder who is present.

Section 6. Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders except as otherwise provided by statute or by the Certificate of Incorporation. If a quorum is present, the holders of the shares present in person or represented by proxy at the meeting, and entitled to vote thereat, shall have the power, by the affirmative vote of the holders of a majority of such shares, to adjourn the meeting to another time and/or place. Unless the adjournment is for more than thirty days or unless a new record date is set for the adjourned meeting, no notice of the adjourned meeting need be given to any stockholder provided that the time and place of the adjourned meeting were announced at the meeting at which the adjournment was taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting.

- 3 -

4

Section 7. Vote Required. When a quorum is present or represented at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provisions of an applicable statute or of the Certificate of Incorporation a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 8. Voting Rights. Every stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, except that no proxy shall be voted after three years from its date, unless such proxy provides for a longer period.

Section 9. Informal Action. Except as may otherwise be provided in the certificate of incorporation, as amended any action required to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting and without a vote if consents in writing, setting forth the action so taken, shall be signed by the holders (on the record date fixed as hereinafter provided) of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less



than unanimous written consent shall be given to those stockholders who have not

- 4 -

5

consented in writing. Any action taken pursuant to such written consent of the stockholders shall have the same force and effect as if taken by the stockholders at a meeting thereof.

In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors ("Board") may fix a record date. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall make a written request to the Board to fix a record date. The Board shall promptly, but in all events within ten days after the date on which such a request is received, adopt a resolution fixing the record date, which record date shall not precede, or be more than ten days after, the date upon which the resolution fixing the record date is adopted by the Board. If no record date has been fixed by the Board within ten days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board is required by applicable law, shall be the first date on which a signed written Consent (as hereinafter defined) setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the books in which proceedings of stockholders' meetings are recorded, to the attention of the Secretary of the Corporation. Delivery shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board and prior action by the Board is required by applicable law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board adopts the resolution taking such prior action.

- 5 -

6

In the event of the delivery to the Corporation of a written consent or consents purporting to authorize or take corporate action and/or related revocations (each such written consent and any revocation thereof being referred to in this Section 9 as a "Consent"), the Secretary of the Corporation shall provide for the safekeeping of such Consents and shall as soon as practicable thereafter conduct such reasonable investigation as he or she deems necessary or appropriate for the purpose of ascertaining the validity of such Consents and all matters incident thereto, including without limitation whether the holders of shares having the requisite voting power to authorize or take the action specified in the Consents have given consent; provided, however, that if the corporate action to which the Consents relate is the removal or election of one or more members of the Board, the Secretary of the Corporation shall designate an independent, qualified inspector with respect to such Consents and such inspector shall discharge the functions of the Secretary of the Corporation under this Section 9. If after such investigation the Secretary or the inspector (as the case may be) shall determine that any action purportedly taken by such Consents has been validly taken, that fact shall be certified in the records of the Corporation kept for the purpose of recording the proceedings of meetings of the stockholders and the Consents shall be filed with such records. In conducting the investigation required by this Section 9, the Secretary or the inspector may, at the expense of the Corporation, retain to assist them special legal counsel and any other necessary or appropriate professional advisors, and such other personnel as the Secretary or such inspector, as the case may be, may deem necessary or appropriate.

- 6 -

7

### ARTICLE III.

-----

#### DIRECTORS

-----

Section 1. Number, Election and Term of Office. The number of directors which shall constitute the whole board shall be nine (9). The directors shall be divided into three (3) classes. Each class shall consist of three (3) directors. The term of office of the first class shall expire on the day of the next annual election of directors of the Corporation; the term of office of the second class shall expire one year thereafter; and that of the third class two (2) years thereafter. At each annual election after such classification, the

directors of each class whose term expires on the day of such election shall be elected for a term of three (3) years.

Section 2. Management By Board of Directors. The business of the Corporation shall be managed by its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute, or by Certificate of Incorporation, or by these Bylaws directed or required to be exercised or done by the stockholders.

Section 3. Removal. Any director or the entire Board of Directors may be removed at any time, with or without cause, by the holders of two-thirds (2/3) of the shares of stock of the Corporation then entitled to vote at an election of directors, except as otherwise provided by statute.

Section 4. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office though less than a quorum, and each director so chosen shall hold office until the next annual

- 7 -

8

election or until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 5. Annual Meetings. The annual meeting of each newly elected Board of Directors shall be held without other notice than this Bylaw immediately after, and at the same place as, the annual meeting of stockholders.

Section 6. Other Meetings and Notice. Regular meetings, other than the annual meeting, of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the board. Special meetings of the Board of Directors may be called by or at the request of the Chief Executive Officer or the Chairman or the Vice-Chairman of the Board on at least twenty-four hours' notice to each director, either personally, by telephone, by mail, or by telegraph or telephonic facsimile transmission. Whenever any notice is required to be given under the provisions of the statutes, or of the Certificate of Incorporation or of these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Section 7. Quorum. A majority of the total number of directors shall constitute a quorum for the transaction of business. The vote of a majority of

directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

- 8 -

9

Section 8. Committees. The Board of Directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation, which to the extent provided in such resolution shall have and may exercise the powers of the Board of Directors in the management and affairs of the Corporation except as otherwise limited by statute. The Board of Directors may designate one or more directors as alternate members of any committee. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required. The Compensation Committee shall consist of three directors, a majority of which shall be "outside" directors (not persons who are management of the Corporation), one of whom will be a representative of Marsam Pharmaceuticals, Inc., for so long as Marsam owns any of the Corporation's Series A Preferred Stock.

Section 9. Committee Rules. Each committee of the Board of Directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by the resolution of the Board of Directors designating such committee, but in all cases the presence of at least a majority of the members of such committee shall be necessary to constitute a quorum. In the event that a member and that members alternate, if alternates are designated by the Board of Directors as provided in Section 8 of this Article III, of such committee is/are absent or disqualified, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint

- 9 -

10

another member of the Board of Directors to act at the meeting in place of any such absent or disqualified members.

Section 10. Informal Action. Any action permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

Section 11. Participation by Conference Telephone. Directors of the Corporation may participate in a meeting of the Board of Directors or any committee thereof by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such a manner shall constitute presence in person at such meeting.

Section 12. Compensation. The directors may be paid for expenses of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of committees designated by the Board of Directors may be allowed like compensation for attending committee meetings.

- 10 -

11

#### ARTICLE IV.

-----

#### OFFICERS

-----

Section 1. Number. The officers of the Corporation shall be chosen by the Board of Directors and shall include a Chief Executive Officer, a President, a Secretary and a Treasurer. The Board of Directors may also choose a Chairman and a Vice-Chairman of the Board of Directors (who must be a member or members of the Board of Directors), a Chief Operating Officer, and one or more Vice Presidents, and one or more Assistant Secretaries and Assistant Treasurers. Any number of offices or functions of those offices may be held or exercised by the same person unless the certificate of incorporation or the bylaws otherwise

provide.

Section 2. Election and Term of Office. The officers of the Corporation shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. Vacancies may be filled or new offices created and filled at any meeting of the Board of Directors. Each officer shall hold office until the next annual meeting of the Board of Directors or until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. Removal. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice of the contract rights, if any, of the person so removed.

- 11 -

12

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term by a majority vote of the directors then in office.

Section 5. Compensation. Compensation of all officers shall be fixed by the Board of Directors, and no officer shall be prevented from receiving such compensation by virtue of the fact that he is also a director of the Corporation.

Section 6. Chairman or Vice-Chairman of the Board of Directors. The Chairman of the Board shall preside at all meetings of the Board of Directors and the stockholders and shall have such other powers and perform such additional duties as may from time to time be assigned by the Board of Directors. In the absence or disability of the Chairman of the Board, the Vice-Chairman shall exercise all the powers and discharge all the duties of the Chairman of the Board. In the absence or disability of the Chief Executive Officer, the Chairman of the Board shall exercise all the powers and discharge all the duties of the Chief Executive Officer.

Section 7. The Chief Executive Officer. The Chief Executive Officer of

the Corporation shall have general active management of the business of the Corporation shall see that all orders and resolutions of the Board of Directors are carried into effect, and may sign and deliver in the name of the Corporation any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the Corporation, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly delegated by the Certificate of Incorporation,

- 12 -

13

these bylaws or the Board of Directors exclusively to some other officer or agent of the Corporation. In addition to the general responsibilities incident to the office of Chief Executive Officer, he or she shall have such other powers and perform such additional duties as may from time to time be assigned by the Board of Directors. Except as otherwise prescribed by these bylaws or the Board of Directors, the Chief Executive Officer shall prescribe the duties of other officers.

Section 8. The President. The President shall in the absence or disability of the Chief Executive Officer and the Chairman and the Vice-Chairmen of the Board perform the duties and exercise the powers of the Chief Executive Officer and shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

Section 9. Chief Operating Officer. The Chief Operating Officer shall in the absence or disability of the President perform the duties and exercise the powers of the President and shall perform such other duties and have such other powers as the Board of Directors or the President may from time to time prescribe.

Section 10. The Vice President. The Vice President, if any, or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors, shall in the absence or disability of the President perform the duties and exercise the powers of the President and shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

Section 10. The Secretary and Assistant Secretaries. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors; perform such other duties as may be prescribed by the Board of Directors or Chief Executive Officer under whose supervision he or she shall be. The Assistant Secretary, if any, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors, shall in the absence or disability of the Secretary perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors or Chief Executive Officer may from time to time prescribe.

Section 11. The Treasurer and Assistant Treasurer. The Treasurer shall be the chief financial officer of the Corporation. The Treasurer shall have the custody of the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation; shall deposit all monies and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors; shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements; and shall render to the Chief Executive Officer and the Board of Directors at its regular meetings, or when the Board of Directors so requires, an account of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond (which shall be renewed every six years) in such sums and with such surety or sureties as shall be

satisfactory to the Board of Directors for the faithful performance of the duties of the office of Treasurer and for the restoration to the Corporation, in case of death, resignation, retirement or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in the possession or under the control of the Treasurer belonging to the Corporation. The Assistant Treasurer, if any, or if there shall be more than one, the Assistant



Treasurers in the order determined by the Board of Directors, shall in the absence or disability of the Treasurer perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 12. Other Officers, Assistant Officers and Agents. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these Bylaws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the Board of Directors.

## ARTICLE V.

-----

### CERTIFICATE OF STOCK

-----

Section 1. Form. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by (i) the Chairman of the Board of Directors, the Chief Executive Officer and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him or her in the Corporation. Where a certificate is signed (1) by a transfer agent or an assistant transfer agent, other than the Corporation or its employee or (2) by a registrar, other than the

- 15 -

16

Corporation or its employee, any other signature on the certificate may be facsimile. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the Corporation whether because of death, resignation or otherwise before such certificate or certificates have been delivered by the Corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the Corporation.

Section 2. Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost,

stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his or her legal representative, to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 3. Fixing a Record Date. The Board of Directors may fix in advance not more than sixty nor less than ten days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or

- 16 -

17

conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining such consent, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, and any adjournment thereof, or entitled to receive payment of any such dividend, or entitled to any such allotment of rights, or entitled to exercise the rights in respect to any such change, conversion, or exchange of capital stock, or entitled to give such consent, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, or to receive payments of such dividend, or to receive such allotment or rights, or to exercise such rights, or to give such consents, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid. If no record date is fixed, the time for determining stockholders shall be at the close of business on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. The time for determining stockholders for any other purpose shall be at the close of business on the date on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 4. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold

liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest

- 17 -

18

in such share or shares on the part of the other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

Section 5. Stock Certificates and Legend. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

#### ARTICLE VI.

-----

#### GENERAL PROVISIONS

-----

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation. Before

payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think in the best interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 2. Checks. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 3. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 4. Seal. The Corporation shall not have a corporate seal.

Section 5. Securities Owned by Corporation. Voting securities in any other corporation held by the Corporation shall be voted by the Chief Executive Officer, unless the Board of Directors specifically confers authority to vote with respect thereto, which may be general or confined to specific instances, upon some other person or officer. Any person authorized to vote securities shall have the power to appoint proxies, with general power of substitution.

## ARTICLE VII.

-----

### AMENDMENTS

-----

These Bylaws may be adopted, amended, altered or repealed at any meeting of the Board of Directors by majority vote. The fact that the power to adopt, amend, alter or repeal the Bylaws has been conferred upon the Board of Directors shall not divest the stockholders of the same powers.



## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and K. Shan Padda ("Padda").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Padda and to set forth in this Agreement the obligations and duties of both Sabratek and Padda; and

WHEREAS, Sabratek wishes to assure itself of the services of Padda for the period hereinafter provided, and Padda is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Padda (individually a "Party" and together the "Parties") agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Padda pursuant to Section 14 below or, in the event that no such person is named who survives Padda, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Padda being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Padda to discharge

faithfully the responsibilities of his position that the Board in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Padma of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same proportion as their ownership of stock of Sabratek immediately prior to such acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Padda, as determined under the long-term disability plan of Sabratek covering Padda, or if no such plan exists, Padda's failure (i) to perform substantially his material duties under this Agreement for a period of six consecutive months, or for an aggregate of 270 days during any 12-month period, and

3

4

(ii) to return to the performance of his duties within 30 days after receiving written notice of termination

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF PADDA. Sabratek hereby continues to employ Padda, and Padda hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 2003; provided, however, that at the end of each 12-month period after September 27, 2000 (unless either Party gives six months' written notice to the other that the Term shall not continue), the Term shall thereafter automatically extend for an additional 12-month period (with the result that, in the absence of such notice, the Term shall never be less than three years in length), unless the Term is sooner terminated as provided in Section 9 below.

### (c) TITLES AND DUTIES.

(i) Until the date of termination of his employment hereunder, Padda



shall be employed as Chief Executive Officer, reporting to the full Board. In his capacity as Chief Executive Officer, Padma shall have the customary powers, responsibilities and authorities of chief executive

4

5

officers of corporations of the size, type and nature of Sabratek including, without limitation, authority, in conjunction with the Board as appropriate, to hire and terminate other employees of Sabratek.

(ii) During the Term of Employment, Sabratek shall use its best efforts to secure the election of Padma to the Board and to the chairmanship thereof.

(d) TIME AND EFFORT.

(i) Padma agrees to devote his best efforts and abilities, and such of his business time and attention as is reasonably necessary, to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Padma from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

3. SALARY.

Padma shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$250,000. During the Term the Committee shall review his Salary no less often than once each Year, commencing January 1, 2000. On the basis of any such review, the Committee may in its sole discretion increase Padma's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

5

#### 4. BONUSES.

(a) ANNUAL BONUS. Padda shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less than 60% of his Salary if he achieves 100% of specified performance objectives, or (ii) less than 70% of his Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Committee and agreed to by Padda.

(b) SPECIAL BONUS. Padda shall be eligible to receive additional bonuses during the Term. The Committee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. LONG-TERM INCENTIVE COMPENSATION.

During the Term, Padda shall be entitled to participate in Sabratek's Long-Term Incentive Compensation Plan (the "LTIP"), a copy of which is attached hereto as Attachment I, and receive awards thereunder in accordance with its terms.

#### 6. EQUITY OPPORTUNITY.

During the Term, Padda shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Committee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

#### 7. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Padda shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek. In

addition, Padda shall be entitled to payment by Sabratek of all reasonable costs and expenses, including attorneys' and consultants' fees and disbursements, incurred by him in connection with adoption of this Agreement and any related compensatory arrangements that Sabratek adopts solely for his benefit.

## 8. EMPLOYEE BENEFIT PLANS.

During the Term Padda shall be entitled to all benefits specifically established for him, including, but not limited to, a \$900 per month housing allowance, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

## 9. TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Padda may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Padda's entitlement shall be as the Parties mutually agree.

7

8

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Padda's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any annual or special bonus awarded but not yet paid to him;

(iv) any deferred compensation payable under any deferred compensation plan of Sabratek;

(v) any other compensation or benefits, including without limitation long-term incentive compensation described in Section 5 above, benefits under

equity grants and awards described in Section 6 above and employee benefits under plans described in Section 8 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan; and

(vi) reimbursement in accordance with Section 7 above of any business expenses incurred by Padda through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Padda's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 9(b), to:

(i) Padda's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

8

9

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Padda may terminate Padda's employment. If Padda's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 9(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Padda's employment hereunder for Cause only upon written notice to Padda not less than 45 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Cause shall in no event be deemed to exist except upon a finding reflected in a resolution approved by a majority (excluding Padda) of the members of the Board (whose findings shall not be binding upon or entitled to any deference by any court, arbitrator or other decision-maker ruling on this Agreement). Upon receipt of such notice, Padda (and his counsel) shall have 30 days to present to the Board his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Board, termination shall be effective on the date specified in the original notice.

In the event that Padda's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 9(b).

(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: (A) termination of Padda's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Padda voluntarily, or (iii) by mutual agreement of Padda and Sabratek; or (B) Sabratek changes the primary employment location of Padda to a place that is outside the

Chicago metropolitan area. Sabratek shall provide Padda ten days' prior written notice of termination by it without Cause.

(ii) In the event of termination by Sabratek of Padda's employment without Cause, he shall be entitled, and Sabratek shall set aside in escrow pursuant to the provisions of Section 9(i)(ii) (without regard to Subsection (A) through (D) thereof) an amount sufficient to pay, in addition to the compensation and benefits specified in Section 9(b), to:

(A) his Salary, at the rate in effect immediately before such termination, for the longer of the remainder of the Term or three years; and

(B) a prorated annual bonus for any partial year and an annual bonus for each remaining Year of the Term equal to the average of the three highest annual bonuses awarded to him during the five Years preceding the Year of termination, such bonus to be paid at the same time annual bonuses are regularly paid; and

(C) continued coverage under the health program maintained by Sabratek for the remainder of the Term; and

(D) the Cumulative Unit Value (as defined in and calculated under the LTIP) for each unit awarded under the LTIP prior to the date of termination to be paid in accordance with the terms thereof; and

(E) notwithstanding anything in this Section 9(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Padda takes any action which would fall within the definition of "Restrictive Covenant" as provided in Section 12(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 12(a) hereof).

(g) VOLUNTARY TERMINATION BY PADDA. Padda shall have the right, upon 60 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 9(e).

(h) NOTICE THAT THE TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Padda shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Committee or Padda may elect to treat the notice as a termination without Cause of Padda's employment; or (B) the non-renewal decision was made by Padda, in which case, the Committee may elect to treat the notice as a voluntary termination of employment by Padda.

(i) CHANGE IN CONTROL. (i) Notwithstanding anything to the contrary in this Section 9, if, within twelve months following a Change in Control (A) Padda's employment is terminated for any reason other than death or Disability, or (B) Padda terminates his employment, he shall be entitled to the compensation and benefits provided in Sections 9(b) and 9(f)(ii), including, but not limited to, any other compensation or benefits, including the Maximum Cumulative Unit Value (as defined in the LTIP) for each unit awarded under the LTIP to the date of termination, benefits under equity grants and awards described in Section 6 above and employee benefits under plans described

in Section 8 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan.

(ii) Immediately upon: (A) the filing by a third-party with the United States Securities and Exchange Commission of any proxy or tender offer material evidencing an intent to gain control of the Company; (B) the mailing of a proxy statement by the Company to shareholders requesting an affirmative vote regarding a Change in Control; or (C) the receipt of information by the Company that 40 percent or more of its outstanding common stock has been acquired by any

person (as defined under the 1934 Act), the Company shall contribute to an irrevocable grantor trust (a "Rabbi Trust") an amount sufficient to enable all potential amounts due to Padda under this Section to be paid. The Company shall provide Padda with a certification of the payment to such trust of all such amounts. All such amounts which are due to Padda shall be paid using the assets of said trust except to the extent its terms preclude such payment, in which event payment shall be made by the Company from its own funds, or unless the Company elects to pay any or all such amounts from its own funds.

#### 10. PARACHUTES.

(a) APPLICATION. If all, or any portion, of the payments provided under this Agreement, and/or any other payments and benefits that Padda receives or is entitled to receive from Sabratek, including, but not limited to, amounts generated from the exercise and sale of options granted to Padda, constitutes an excess "parachute payment" within the meaning of Section 280G(b) of the Code, whether or not under an existing plan, arrangement or other agreement (each such parachute payment, a "Parachute Payment") and will result in the imposition on Padda of an excise tax under Section 4999 of the Code, then, in addition to any other benefits to which Padda is entitled under this

12

13

Agreement, Sabratek shall pay him an amount in cash equal to the sum of the excise taxes payable by him by reason of receiving such Parachute Payments, plus the amount necessary to put him in the same after-tax position (taking into account any and all applicable federal, state and local excise, income or other taxes at the highest possible applicable rates on such Parachute Payments (including without limitation any payments under this Section 10) as if no excise taxes had been imposed with respect to Parachute Payments (the "Parachute Gross-up")).

(b) COMPUTATION. The amount of any payment under this Section 10 shall be computed by Sabratek's certified public accounting firm in consultation with legal counsel acceptable to Padda. Padda and Sabratek shall provide the accounting firm with all information that it reasonably deems necessary in order to compute the Parachute Gross-up. The cost and expenses of the accounting firm retained to perform the computations shall be borne by Sabratek.

(c) PAYMENT. In any event, Sabratek shall pay to Padda, or pay on his behalf, the Parachute Gross-up as computed by the accounting firm by the time any taxes payable by him as a result of the Parachute Payments become due.

In the event that the Internal Revenue Service ("IRS") determines that the amount of excise taxes thereon initially paid was insufficient to discharge Padda's excise tax liability, Sabratek shall make additional payments to him as may be necessary to reimburse him for discharging the full liability.

13

14

## 11. CONFIDENTIALITY AND LOYALTY.

### (a) GENERAL.

(i) Padda hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Padda hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Padda of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Padda prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent. Upon termination of Padda's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(c) DUTY OF LOYALTY. Padda hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(d) REMEDIES AND SANCTIONS. In the event that Padda is found to be in violation of Section 11(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 13 below.

14



## 12. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Padda hereby agrees that, except with the express prior written consent of Sabratek, for a period of one year after termination of his employment with Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Padda violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 12(a), computed from the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Padda.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 12(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Padda's employment without Cause, as provided in Section 9(f) above; or

(ii) prohibit Padda from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Padda is found to be in

violation of Section 12(a) above, Sabratek shall be entitled to relief as provided in Section 13 below.

### 13. REMEDIES/SANCTIONS.

Padda hereby acknowledges that the restrictions contained in Sections 11 (a), (b) and (c) and 12(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Padda in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other rights, remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Padda and any and all persons directly or indirectly acting for or with him, as the case may be.

### 14. BENEFICIARIES/REFERENCES.

16

17

Padda shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Padda's death, or of a judicial determination of his incompetence, reference in this Agreement to Padda shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

### 15. WITHHOLDING TAXES.

All payments to Padda or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

### 16. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Padda,

and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Padda to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Padda as provided above and maintain such liability insurance coverage for him after the Term for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

#### 17. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Padda's entitlement to participate fully in compensation, employee benefit and other plans of Sabratek in which senior executives are eligible to participate.

17

18

#### 18. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Padda) and assigns. No rights or obligations of Sabratek under this Agreement may be assigned or transferred by Sabratek except pursuant to (a) a merger or consolidation or (b) sale or liquidation of all or substantially all of the assets of Sabratek, provided that the surviving entity or assignee or transferee is the successor to all or substantially all of the assets of Sabratek and, in the case of a sale or other transfer of assets or a merger in which Sabratek is not the surviving entity, such surviving entity or assignee or transferee agrees in writing to assume the liabilities, obligations and duties of Sabratek under this Agreement. Notwithstanding such assignment, Sabratek shall remain liable and responsible for fulfillment of the terms and conditions of this Agreement; and provided further, that in no event shall such assignment of this Agreement adversely affect Padda's right upon a Change in Control, as provided in Section 9(i) above. No rights or obligations of Padda under this Agreement may be assigned or transferred by him.

#### 19. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or

organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

18

19

## 20. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, including without limitation, the agreement made and entered into as of January 1, 1996 between Sabratek and Padda as heretofore amended and supplemented, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Padda under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Padda would otherwise be entitled.

## 21. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Padda and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Party to be charged with the waiver. No delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

## 22. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement

19

20

shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

### 23. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Padda's employment with Sabratek.

### 24. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

### 25. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 11 or 12 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Padda within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

### 26. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Padda pursuant to any bona fide dispute or question of interpretation relating to this Agreement, including all such expenses and fees,

if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Padda other than due to a breach of this Agreement by Sabratek, Sabratek shall be obligated to pay any of Padda's expenses and legal fees arising

therefrom only if Padda is successful on the merits pursuant to a legal judgment, arbitration or settlement.

## 27. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Padda:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: Chairman

FAX: (847) 647-2382

and

K. Shan Padda  
1901 North Clybourn, 4th Floor  
Chicago, Illinois 60614

28. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

29. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

22

23

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

Sabratek Corporation

By: \_\_\_\_\_  
Edson W. Spencer, Jr., Chairman  
of the Compensation Committee

\_\_\_\_\_  
K. Shan Padda

23

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Stephen L. Holden ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties") agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 13 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Employee being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;



(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that the Board in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same proportion as their ownership of stock of Sabratek immediately prior to such acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of six consecutive months, or for an aggregate of 270 days during any 12-

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 2001; provided, however, that at the end of each 12-month period after September 27, 1999 (unless either Party gives three months' written notice to the other that the Term shall not continue), the Term shall thereafter automatically extend for an additional 12-month period (with the result that, in the absence of such notice, the Term shall never be less than two years in length), unless the Term is sooner terminated as provided in Section 9 below.

(c) TITLES AND DUTIES. Until the date of termination of his employment hereunder, Employee shall be employed as President and Treasurer, reporting to the Chief Executive Officer. In his capacity as President and Treasurer, Employee shall have the customary powers,

4

5

responsibilities and authorities of president and treasurer of corporations of the size, type and nature of Sabratek.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

### 3. SALARY.

Employee shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$200,000. During the Term the Chief Executive Officer shall review his Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer may in its sole discretion adjust Employee's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

### 4. BONUSES.

(a) ANNUAL BONUS. Employee shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less than 40% of his Salary if he achieves 80% of specified performance objectives, (ii) less than 50% of his Salary if he achieves

5

100% of specified performance objectives, or (iii) less than 60% of his Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Chief Executive Officer and agreed to by Employee.

(b) SPECIAL BONUS. Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. LONG-TERM INCENTIVE COMPENSATION.

During the Term, Employee shall be entitled to participate in Sabratek's Long-Term Incentive Compensation Plan (the "LTIP"), a copy of which is attached hereto as Attachment I, and receive awards thereunder in accordance with its terms.

#### 6. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

#### 7. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek. In addition, Employee shall be entitled to payment by Sabratek of all reasonable costs and expenses, including attorneys' and consultants' fees and disbursements, incurred by him in connection with

adoption of this Agreement and any related compensatory arrangements that Sabratek adopts solely for his benefit.

#### 8. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

#### 9. TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may

be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

- (i) his Salary through the date of termination;
- (ii) any unused vacation from prior years according to Sabratek's vacation policy;
- (iii) any annual or special bonus awarded but not yet paid to him;

(iv) any deferred compensation payable under any deferred compensation plan of Sabratek;

(v) any other compensation or benefits, including without limitation long-term incentive compensation described in Section 5 above, benefits under equity grants and awards described in Section 6 above and employee benefits under plans described in Section 8 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan; and

(vi) reimbursement in accordance with Section 7 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 9(b), to:

(i) Employee's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 9(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's employment hereunder for Cause only upon written notice to Employee not less than 45 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have 30 days to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 9(b).

(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: (A) termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek; or (B) Sabratek changes the primary employment location of Employee to a place that is outside of the Chicago metropolitan area. Sabratek shall provide Employee ten days' prior written notice of termination by it without Cause.

9

10

(ii) In the event of termination by Sabratek of Employee's employment without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 9(b), to:

(A) his Salary, at the rate in effect immediately before such termination, for the longer of the remainder of the Term or two years; and

(B) a prorated annual bonus for any partial year and an annual bonus for each remaining Year of the Term equal to the average of the three highest annual bonuses awarded to him during the five Years preceding the Year of termination, such bonuses to be paid at the same time annual bonuses are regularly paid; and

(C) continued coverage under the health program maintained by Sabratek for the remainder of the Term; and

(D) the Cumulative Unit Value (as defined in and calculated under the LTIP) for each unit awarded under the LTIP prior to the date of termination to be paid in accordance with the terms thereof; and

(E) notwithstanding anything in this Section 9(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive Covenant" as provided in Section 12(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 12(a) hereof).

(g) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 60 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall

10

11

terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 9(e).

(h) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Chief Executive Officer or Employee may elect to treat the notice as a termination without Cause of Employee's employment; or (B) the non-renewal decision was made by Employee, in which case, the Chief Executive Officer may elect to treat the notice as a voluntary termination of employment by Employee.

(i) CHANGE IN CONTROL. (i) Notwithstanding anything to the contrary in this Section 9, if, within twelve months following a Change in Control (A) Employee's employment is terminated for any reason other than death or Disability, or (B) Employee terminates his employment, he shall be entitled to the compensation and benefits provided in Sections 9(b) and 9(f)(ii), including, but not limited to, any other compensation or benefits, including the Maximum Cumulative Unit Value (as defined in the LTIP) for each unit awarded under the LTIP to the date of termination, benefits under equity grants and awards described in Section 6 above and employee benefits under plans described in Section 8 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan.

(ii) Immediately upon: (A) the filing by a third-party with the United States Securities and Exchange Commission of any proxy or tender offer material evidencing an intent to

11



gain control of the Company; (B) the mailing of a proxy statement by the Company to shareholders requesting an affirmative vote regarding a Change in Control; or (C) the receipt of information by the Company that 40 percent or more of its outstanding common stock has been acquired by any person (as defined under the 1934 Act), the Company shall contribute to an irrevocable grantor trust (a "Rabbi Trust") an amount sufficient to enable all potential amounts due to Employee under this Section to be paid. The Company shall provide Employee with a certification of the payment to such trust of all such amounts. All such amounts which are due to Employee shall be paid using the assets of said trust except to the extent its terms preclude such payment, in which event payment shall be made by the Company from its own funds, or unless the Company elects to pay any or all such amounts from its own funds.

#### 10. PARACHUTES.

(a) APPLICATION. If all, or any portion, of the payments provided under this Agreement, and/or any other payments and benefits that Employee receives or is entitled to receive from Sabratek, including, but not limited to, amounts generated from the exercise and sale of options granted to Employee, constitutes an excess "parachute payment" within the meaning of Section 280G(b) of the Code, whether or not under an existing plan, arrangement or other agreement (each such parachute payment, a "Parachute Payment") and will result in the imposition on Employee of an excise tax under Section 4999 of the Code, then, in addition to any other benefits to which Employee is entitled under this Agreement, Sabratek shall pay him an amount in cash equal to the sum of the excise taxes payable by him by reason of receiving such Parachute Payments, plus the amount necessary to put him in the same after-tax position (taking into account any and all applicable federal, state and local excise, income or other taxes at the highest possible applicable

rates on such Parachute Payments (including without limitation any payments under this Section 10) as if no excise taxes had been imposed with respect to Parachute Payments (the "Parachute Gross-up").

(b) COMPUTATION. The amount of any payment under this Section 10 shall be

computed by Sabratek's certified public accounting firm in consultation with legal counsel acceptable to Employee. Employee and Sabratek shall provide the accounting firm with all information that it reasonably deems necessary in order to compute the Parachute Gross-up. The cost and expenses of the accounting firm retained to perform the computations shall be borne by Sabratek.

(c) PAYMENT. In any event, Sabratek shall pay to Employee, or pay on his behalf, the Parachute Gross-up as computed by the accounting firm by the time any taxes payable by him as a result of the Parachute Payments become due.

In the event that the Internal Revenue Service ("IRS") determines that the amount of excise taxes thereon initially paid was insufficient to discharge Employee's excise tax liability, Sabratek shall make additional payments to him as may be necessary to reimburse him for discharging the full liability.

## 11. CONFIDENTIALITY AND LOYALTY.

### (a) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent. Upon termination of Employee's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(c) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(d) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 11(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 13 below.

## 12. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of one year after termination of his employment with Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of

limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 12(a), computed from the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 12(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Employee's employment without Cause, as

provided in Section 9(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 12(a) above, Sabratek shall be entitled to relief as provided in Section 13 below.

15

16

### 13. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 11 (a), (b) and (c) and 12(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other rights, remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Employee and any and all persons directly or indirectly acting for or with him, as the case may be.

### 14. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or

other legal representative.

15. WITHHOLDING TAXES.

16

17

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

16. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

17. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other plans of Sabratek in which senior executives are eligible to participate.

18. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns. No rights or obligations of Sabratek under this Agreement may be assigned or transferred by Sabratek except pursuant to (a) a merger or consolidation or (b) sale or liquidation of all or substantially all of the assets of Sabratek,

17

provided that the surviving entity or assignee or transferee is the successor to all or substantially all of the assets of Sabratek and, in the case of a sale or other transfer of assets or a merger in which Sabratek is not the surviving entity, such surviving entity or assignee or transferee agrees in writing to assume the liabilities, obligations and duties of Sabratek under this Agreement. Notwithstanding such assignment, Sabratek shall remain liable and responsible for fulfillment of the terms and conditions of this Agreement; and provided further, that in no event shall such assignment of this Agreement adversely affect Employee's right upon a Change in Control, as provided in Section 9(i) above. No rights or obligations of Employee under this Agreement may be assigned or transferred by him.

#### 19. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 20. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, including without limitation, the agreement made and entered into as of July 2, 1998, between Sabratek and Employee as heretofore amended and supplemented, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Employee

under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

#### 21. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Party to be charged with the waiver. No delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

#### 22. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

#### 23. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

#### 24. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

#### 25. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 11 or 12 hereof (actions regarding which may be brought in any

court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

## 26. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee pursuant to any bona fide dispute or question of interpretation relating to this Agreement, including all such expenses and fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek,

20

21

Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

## 27. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076



Attention: Chairman

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501

FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: Stephen L. Holden

FAX: (847) 647-2382

21

22

and

Stephen L. Holden  
395 Carlisle Avenue  
Deerfield, Illinois 60015

## 28. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

## 29. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so

executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

SABRATEK CORPORATION

By: \_\_\_\_\_  
K. Shan Padda, Chairman  
and Chief Executive Officer

\_\_\_\_\_  
Stephen L. Holden

## SABRATEK CORPORATION

## EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of February 25, 1997, between Sabratek Corporation, a Delaware corporation, ("Sabratek"), and Elliott R. Mandell ("Executive").

Pursuant to an Asset Purchase Agreement (the "Purchase Agreement") among Sabratek, Executive and Rocap, Inc., a Massachusetts corporation ("Rocap"), Sabratek will acquire the assets of Rocap and will operate the business currently operated by Rocap (the "Business") from and after the closing under the Purchase Agreement through a new subsidiary of Sabratek or as a division of Sabratek (either, the "Company").

In consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment. The Company shall employ Executive, and Executive hereby accepts employment with the Company, upon the terms and conditions set forth in this Agreement for the period beginning on the date hereof and ending as provided in paragraph 5 hereof (the "Employment Period").

2. Position and Duties:

(a) During the Employment Period, Executive shall serve as the President of the Business and shall have the normal duties, responsibilities and authority of the President of the Business, subject to the power of the Company's board of directors (the "Board") or the Company's Chief Executive Officer (the "CEO") to expand or limit such duties, responsibilities and authority and to override actions of the Executive. The responsibilities and authority of Executive shall be sufficient to enable Executive to accomplish the goals of the Company set forth in paragraph 5(e).

(b) Executive shall report directly to the CEO, shall also have a reporting relationship to the Company's President and shall devote his best efforts and his full business time and attention (except for permitted vacation periods and reasonable periods of illness or other incapacity) to the business and affairs of the Company. Executive shall perform his duties and responsibilities to the best of his abilities in a diligent, trustworthy, businesslike and efficient manner.

### 3. Base Salary and Benefits.

(a) During the Employment Period, Executive's base salary shall be \$150,000 per annum or such higher rate as the CEO may designate from time to time (the "Base Salary"), which salary shall be payable in regular installments in accordance with the Company's general payroll practices and shall be subject to customary withholding. The Executive's base salary level shall be reviewed annually by the CEO, and Executive shall be eligible for performance based increases on the same basis as other senior executives of Sabratek. In addition, during the Employment Period, Executive shall be eligible to participate in all of the Company's employee benefit programs.

(b) The Company shall reimburse Executive for all reasonable expenses incurred by him in the course of performing his duties under this Agreement which are consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company's requirements with respect to reporting and documentation of such expenses.

(c) In addition to the Base Salary, the CEO (with ratification of the Board or a committee thereof) may award a cash or stock bonus or options to purchase Sabratek common stock to Executive following the end of each fiscal year during the Employment Period based upon Executive's performance and the Company's operating results during such year.

### 4. Stock Options.

(a) As of the date of this Agreement, Executive is hereby granted options to acquire 100,000 shares of Sabratek's common stock (the "Base Options") pursuant to Sabratek's Amended and Restated 1993 Stock Option Plan (the "Option Plan"). The Base Options shall have a 10-year term and shall have an exercise price per share equal to the closing sales price for the Sabratek common stock on the trading day prior to the date of grant. Subject to the provisions of this paragraph 4, the Base Options shall vest and become exercisable by Executive as follows: (i) Base Options to Purchase 40,000 shares shall be fully vested and exercisable at the date hereof; (ii) Base Options to purchase 30,000 shares shall vest and become exercisable on the first anniversary of the date hereof; (iii) Base Options to purchase 20,000 shares shall vest and become exercisable on the second anniversary of the date hereof; and (iv) Base Options to purchase 10,000 shares shall vest and become exercisable on the third anniversary of the date hereof.

(b) In addition, as of the date of this Agreement, Executive is also hereby granted additional options to acquire 100,000 shares of Sabratek's common stock (the "Additional Options") pursuant to the Option Plan. The Additional Options shall have a 10-year term and shall have an exercise price per share equal to the closing sales price for the Sabratek common stock on the trading day prior to the date of grant. Subject to the provisions of this paragraph 4, the Additional Options shall vest and become exercisable by Executive as follows: (i) Additional Options to purchase 50,000 shares shall vest and become

exercisable on the first anniversary of the date hereof; (ii) Additional Options to purchase 25,000 shares shall vest and become exercisable on the second

- 2 -

3

anniversary of the date hereof; and (iii) Additional Options to purchase 25,000 shares shall vest and become exercisable on the third anniversary of the date hereof.

(c) If the Employment Period is terminated by the Company for Cause (as defined below) or is terminated because of the death or permanent disability or incapacity (which shall mean the inability on a permanent basis to carry out the duties and responsibilities of the position on an effective basis due to casualty, illness, injury, or other impairment of mental, physical or emotional faculties, as determined by the CEO exercising reasonable judgment) of Executive, (i) all unvested Base Options will immediately vest and become exercisable and (ii) all unvested Additional Options will immediately be forfeited to the Company and Executive will have no further rights in respect thereof.

(d) If the Employment Period is terminated by the Company without Cause or in the event of a Sabratek Change of Control (as defined below), all unvested Base Options and all unvested Additional Options will immediately vest and become exercisable.

(e) If the Employment Period is terminated by the resignation of Executive, all unvested Base Options and all unvested Additional Options will immediately be forfeited to the Company and Executive will have no further rights in respect thereof.

(f) Following termination of the Employment Period for any reason, all vested Base Options and vested Additional Options shall be exercisable by Executive (or his executor, administrator or other legal representative) for a period of 60 days from the date of termination.

(g) At the time of the grant of the Base Options and Additional Options, Executive shall be issued an option grant letter in the form customarily used by the Company for option grants made under the Option Plan, and the Base Options and the Additional Options shall be subject to the terms and conditions of the Option Plan in addition to the terms set forth in this Agreement.

(h) If Executive is still employed with the Company on March 31, 2000, at the election of Executive and upon the written request of Executive made within ten days following such date (or if the Employment Period is terminated by the Company without Cause prior thereto, within ten days following such termination), the Company shall repurchase from Executive all vested and unexercised Base Options held by Executive for a purchase price equal

to \$18.00 per Base Option. Such purchase price (net of any required tax withholding) shall be payable by the delivery of a cashiers or certified check payable to Executive or wire transfer of immediately available funds to an account designated by Executive. From and after such payment, Executive shall have no further rights with respect to such Base Options.

(i) For purposes of this paragraph 4, a "Sabratek Change of Control" shall be deemed to occur upon (i) the sale of all or substantially all of the assets of Sabratek, (ii) a merger or consolidation of Sabratek with another corporation, or an exchange of the securities of Sabratek for the securities of another corporation, with the result that the shareholders of Sabratek immediately before such merger, consolidation or exchange own less than a majority of the

- 3 -

4

outstanding voting securities of the surviving corporation of such merger or consolidation, or of the corporation in which such shareholders own securities as a result of and following such exchange, immediately after such merger, consolidation or exchange, (iii) the acquisition by any person or group (within the meaning of Section 13(d) under the Securities Exchange Act of 1934, as amended) of a majority of the outstanding common stock of Sabratek in one or a series of related transactions, or (iv) the failure of K. Shan Padda to serve as either an executive officer or director of Sabratek. Notwithstanding the foregoing, a change of control shall not be deemed to occur as a result of any of the foregoing transactions if the corporate existence of Sabratek is not affected by such transaction and Sabratek's chief executive officer and directors retain their positions with Sabratek (and constitute at least a majority of the board of directors) following the transaction.

5. Term.

(a) Unless renewed by the mutual agreement of the Company and Executive, the Employment Period shall end on the third anniversary of the date of this Agreement, provided that (i) the Employment Period shall terminate prior to such date upon Executive's resignation, death or permanent disability or incapacity (which shall mean the inability on a permanent basis to carry out the duties and responsibilities of the position on an effective basis due to casualty, illness, injury, or other impairment of mental, physical or emotional faculties, as determined by the CEO exercising reasonable judgment) and (ii) the Employment Period may be terminated by the Company at any time prior to such date for Cause (as defined below) or without Cause by delivery of notice to Executive of such termination.

(b) If the Employment Period is terminated by the Company without Cause prior to the third anniversary of the date of this Agreement, Executive shall be entitled to receive his Base Salary through such third anniversary, provided that Executive shall be entitled to such continuation of his Base Salary if and only if Executive has not breached in any material respect the provisions of paragraphs 6 through 10 hereof. The amounts payable pursuant to

this paragraph 5(b) shall be reduced by the amount of any compensation Executive receives with respect to any other employment during the period prior to the third anniversary hereof.

(c) If the Employment Period is terminated by the Company for Cause or is terminated pursuant to paragraph 5(a)(i) above, Executive shall be entitled to receive his Base Salary through the date of termination.

(d) All of Executive's rights to fringe benefits and bonuses hereunder (if any) which accrue after the termination of the Employment period shall cease upon such termination.

(e) For purposes of this Agreement, "Cause" shall mean (i) a material breach of this Agreement by Executive, (ii) a material breach of Executive's duty of loyalty to Sabratek or any of its subsidiaries or any act of dishonesty or fraud with respect to Sabratek or any of its subsidiaries, (iii) the commission of Executive of a felony, a crime involving moral turpitude or other act or omission causing material harm to the standing and reputation of Sabratek and its subsidiaries, (iv) Executive's continued failure to perform his duties as directed by the Board or the CEO as contemplated by this Agreement or (v) Executive's substandard performance. For the purposes of

- 4 -

5

this Agreement, "substandard performance" shall mean the failure of Executive to use reasonable efforts (i) to cause (A) the present facility of the Business to reach full production capacity on or before September 1, 1997 and (B) the construction of eight additional new facilities (or such lesser number mutually agreed to by Executive and the Company) for the Business and the reaching of full production capacity by such facilities on or before the third anniversary of the date of this Agreement, or (ii) to cause the Business to be operated so as to maximize the flush business capacity and control costs without impact upon product quality or safety, in each case as determined by the CEO as provided herein. For purposes of the preceding sentence, "full production capacity" shall mean the capability of producing at an average weekly production level of at least 400,000 flush product units. The CEO shall give Executive written notice of the CEO's concern over Executive's performance, and Executive shall have 15 days to prepare for a meeting with the CEO, at which time Executive may present any information on market competitive conditions and any other factors bearing upon his performance. In assessing Executive's performance, the CEO shall give due consideration to the overall industry experience, competitive factors and other factors identified by Executive bearing on his performance in assessing Executive's performance. After due consideration of these factors, if the CEO determines in good faith that Executive has failed to meet the foregoing standards regarding substandard performance, the CEO may provide Executive a notice of termination for cause, which notice shall be effective 45 days after delivery to Executive, during which period Executive shall have the opportunity to cure such substandard

performance. Prior to the expiration of such 45 day period, Executive shall have the right to meet with CEO and present any information regarding the cure of such substandard performance, and unless the CEO determines as a result of such meeting that the substandard performance no longer exists, the notice of termination for cause shall become effective at the end of such 45 day period. The parties agree that the Executive's obligation is to use reasonable efforts to accomplish the production goals identified above and that the achievement of sales of flush products in a sufficient amount to utilize such production is not a component to be analyzed in measuring Executive's performance for this purpose.

(f) The Company may offset any amounts Executive owes it or its subsidiaries against any amounts it owes Executive hereunder, provided that the Company shall have no such right of offset in respect of any amounts owed to it (or alleged to be owed to it) as a result of the breach (or alleged breach) by Executive of any representation or warranty made by Executive in the Purchase Agreement.

6. Confidential Information. Executive acknowledges that the information, observations and data obtained by him while employed by Sabratek and its subsidiaries (including those obtained while employed by Rocap prior to the date of this Agreement and the acquisition of Rocap's assets by the Company) concerning the business or affairs of Sabratek (including the Business) or any subsidiary of Sabratek ("Confidential Information") are the property of Sabratek or such subsidiary. Therefore, Executive agrees that he shall not disclose to any unauthorized person or use for his own purposes any Confidential Information without the prior written consent of the CEO, unless and to the extent that the aforementioned matters become generally known to and available for use by the public other than as a result of Executive's acts or omissions. Executive shall deliver to Sabratek at the termination of the Employment Period, or at any other time Sabratek may request, all memoranda, notes, plans, records, reports, computer tapes, printouts and software

- 5 -

6

and other documents and data (and copies thereof) relating to the Confidential Information, Work Product (as defined below) or the business of Sabratek or any subsidiary of Sabratek which he may then possess or have under his control.

7. Inventions and Patents. Executive acknowledges that all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (whether or not patentable) which relate to Sabratek's or any of its subsidiaries' actual or anticipated business, research and development or existing or future products or services and which are conceived, developed or made by Executive while employed by Sabratek and its subsidiaries, or by Rocap ("Work Product") belong to Sabratek or such subsidiary. Executive shall promptly disclose such Work Product to the CEO and perform all actions reasonably requested by the CEO (whether



during or after the Employment Period) to establish and confirm such ownership (including, without limitation, assignments, consents, powers of attorney and other instruments).

8. Non-Compete. In further consideration of the compensation to be paid to Executive hereunder, Executive acknowledges that in the course of his employment with the Sabratek or any of its subsidiaries he shall become familiar, and during his employment with Rocap he has become familiar, with the trade secrets of the Business and with other Confidential Information concerning Sabratek and its predecessors and its subsidiaries and that his services have been and shall be of special, unique and extraordinary value to Rocap and to Sabratek and its subsidiaries. Therefore, Executive agrees that, during the Employment Period and until the later of (i) the third anniversary of the date of this Agreement and (ii) the first anniversary of the expiration of the Employment Period (the "Non-Compete Period"), he shall not directly or indirectly own any interest in, manage, control, participate in, consult with, render services for, or in any manner engage in any business competing with the businesses of Sabratek or its subsidiaries, as the businesses of Sabratek and its subsidiaries exist or are in process on the date of the termination of Executive's employment, within any geographical area in which Sabratek or its subsidiaries engage or plan to engage in such businesses. Nothing herein shall prohibit Executive from (i) employment as a pharmacist in a retail pharmacy business or in a pharmacy business maintained as part of a hospital, health maintenance organization or other similar entity providing health services to the public where such pharmacy business is only serving such entity providing health services or (ii) being a passive owner of not more than 2% of the outstanding stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation.

9. Non-Solicitation. During the Employment Period and until the later of (i) the third anniversary of the date of this Agreement and (ii) the first anniversary of the expiration of the Employment Period (the "Non-Solicitation Period"), Executive shall not directly or indirectly through another entity (i) induce or attempt to induce any employee of Sabratek or any of its subsidiaries (including the Company) to leave the employ of Sabratek or such subsidiary, or in any way interfere with the relationship between Sabratek or any such subsidiary and any employee thereof, or (ii) induce or attempt to induce any customer, supplier, licensee, licensor, franchisee or other business relation of Sabratek or any such subsidiary to cease doing business with Sabratek or such subsidiary, or in any way interfere with the relationship between any such customer, supplier,

- 6 -

7

licensee or business relation and Sabratek or any such subsidiary (including, without limitation, making any negative statements or communications about Sabratek or its subsidiaries).

10. Enforcement. If, at the time of enforcement of paragraph 6, 7, 8 or 9 of this Agreement, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area. Because Executive's services are unique and because Executive has access to Confidential Information and Work Product, the parties hereto agree that money damages would not be an adequate remedy for any breach of this Agreement. Therefore, in the event a breach or threatened breach of this Agreement, Sabratek or its successors or assigns may, in addition to other rights and remedies existing in their favor, apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach or violation by Executive of paragraph 9 and/or 10, the Non-Compete Period and/or Non-Solicitation Period, as applicable, shall be tolled until such breach or violation has been duly cured. Executive agrees that the restrictions contained in paragraphs 9 and 10 are reasonable.

11. Executive's Representations. Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive do not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound, (ii) Executive is not a party to or bound by any employment agreement, noncompete agreement or confidentiality agreement with any other person or entity, and (iii) upon the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms. Executive hereby acknowledges and represents that he has consulted with independent legal counsel regarding his rights and obligations under this Agreement and that he fully understands the terms and conditions contained herein.

12. Survival. Paragraphs 7 through 10 and paragraphs 12 through 20 shall survive and continue in full force in accordance with their terms notwithstanding any termination of the Employment Period.

- 7 -

8

13. Notices. Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

Notices to Executive:	Elliott R. Mandell
	91 Fuller Street
	North Andover, MA 01845

with a copy to: Kenneth A. Cossingham, Esq.

Cossingham Law Office, P.C.  
800 Turnpike Street  
Suite 305  
North Andover, MA 01845

Notices to Sabratek:

Sabratek Corporation  
5601 West Howard Street  
Niles, IL 60714  
Attn: Chief Executive Officer

with a copy to:

Kirkland & Ellis  
200 East Randolph Drive  
Chicago, IL 60601  
Attn: Alan G. Berkshire

or such other address or to the attention of such other person as the recipient party shall have specified by prior written notice in accordance with this paragraph to the sending party. Any notice under this Agreement shall be deemed to have been given when so delivered or mailed.

14. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

15. Complete Agreement. This Agreement, the Purchase Agreement, those documents expressly referred to herein and other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

16. No Strict Construction. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party.

- 8 -

9

17. Counterparts. This Agreement may be executive in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

18. Successors and Assigns. This Agreement is intended to bind and

inure to the benefit of and be enforceable by Executive, Sabratek and their respective heirs, successors and assigns, except that Executive may not assign his rights or delegate his obligations hereunder without the prior written consent of Sabratek.

19. Choice of Law. All issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement and the exhibits and schedules hereto shall be governed by, and construed in accordance with, the laws of the State of Illinois, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Illinois or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Illinois.

20. Amendment and Waiver. The provisions of this Agreement may be amended or waived only with the prior written consent of Sabratek and Executive, and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

\* \* \* \* \*

- 9 -

10

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

SABRATEK CORPORATION

By /s/ Elliott R. Mandell

-----

Its SVP and CEO

-----

-----

ELLIOTT R. MANDELL

11

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

SABRATEK CORPORATION

By

-----

Its

-----

/S/ Elliott R. Mandell

-----

ELLIOTT R. MANDELL

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Doron C. Levitas ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties" ) agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 14 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

- (i) Employee being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that the Board in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of

Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same proportion as their ownership of stock of Sabratek immediately prior to such acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of six consecutive months, or for an aggregate of 270 days during any 12-

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 2001; provided, however, that at the end of each 12-month period after September 27, 1999 (unless either Party gives three months' written notice to the other that the Term shall not continue), the



Term shall thereafter automatically extend for an additional 12-month period (with the result that, in the absence of such notice, the Term shall never be less than two years in length), unless the Term is sooner terminated as provided in Section 8 below.

(c) TITLES AND DUTIES.

(i) Until the date of termination of his employment hereunder, Employee shall be employed as Vice President of International Operations, Chief Administrative Officer and

4

5

Secretary, reporting to the Chief Executive Officer or his designee. In his capacity as Vice President of International Operations, Chief Administrative Officer and Secretary, Employee shall have the customary powers, responsibilities and authorities of vice president of international operations, chief administrative officer and secretary of corporations of the size, type and nature of Sabratek.

(ii) During the Term of Employment, Sabratek shall use its best efforts to secure the election of Employee to the Board and to the vice-chairmanship thereof.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

3. SALARY.

Employee shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$145,000. During the Term the Chief Executive Officer or his designee shall review his

Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer or his designee may in its sole discretion adjust Employee's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

5

6

#### 4. BONUSES.

(a) ANNUAL BONUS. Employee shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less than 30% of his Salary if he achieves 80% of specified performance objectives, (ii) less than 40% of his Salary if he achieves 100% of specified performance objectives, or (iii) less than 50% of his Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Chief Executive Officer or his designee and agreed to by Employee.

(b) SPECIAL BONUS. Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer or his designee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. LONG-TERM INCENTIVE COMPENSATION.

During the Term, Employee shall be entitled to participate in Sabratek's Long-Term Incentive Compensation Plan (the "LTIP"), a copy of which is attached hereto as Attachment I, and receive awards thereunder in accordance with its terms.

#### 6. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer or his designee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

6

## 7. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek. In addition, Employee shall be entitled to payment by Sabratek of all reasonable costs and expenses, including attorneys' and consultants' fees and disbursements, incurred by him in connection with adoption of this Agreement and any related compensatory arrangements that Sabratek adopts solely for his benefit.

## 8. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

## 9. TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be

the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event

of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any annual or special bonus awarded but not yet paid to him;

(iv) any deferred compensation payable under any deferred compensation plan of Sabratek;

(v) any other compensation or benefits, including without limitation long-term incentive compensation described in Section 5 above, benefits under equity grants and awards described in Section 6 above and employee benefits under plans described in Section 8 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan; and

(vi) reimbursement in accordance with Section 7 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 9(b), to:

(i) Employee's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 9(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's

employment hereunder for Cause only upon written notice to Employee not less than 45 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have 30 days to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 9(b).

(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: (A) termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek; or (B) Sabratek changes the primary employment location of Employee to a place that is

outside of the Chicago metropolitan area. Sabratek shall provide Employee ten days' prior written notice of termination by it without Cause.

(ii) In the event of termination by Sabratek of Employee's employment without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 9(b), to:

(A) his Salary, at the rate in effect immediately before such termination, for the longer of the remainder of the Term or two years; and

(B) a prorated annual bonus for any partial year and an annual bonus for each remaining Year of the Term equal to the average of the three highest annual bonuses awarded to him during the five Years preceding the Year of termination, such bonuses to be paid at the same time annual bonuses are regularly paid; and

(C) continued coverage under the health program maintained by Sabratek for the remainder of the Term; and

(D) the Cumulative Unit Value (as defined in and calculated under the LTIP) for each unit awarded under the LTIP prior to the date of termination to be paid in accordance with the terms thereof; and

(E) notwithstanding anything in this Section 9(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive Covenant" as provided in Section 12(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 12(a) hereof).

10

11

(G) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 60 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 9(e).

(H) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Chief Executive Officer or his designee or Employee may elect to treat the notice as a termination without Cause of Employee's employment; or (B) the non-renewal decision was made by Employee, in which case, the Chief Executive Officer or his designee may elect to treat the notice as a voluntary termination of employment by Employee.

(I) CHANGE IN CONTROL. (I) Notwithstanding anything to the contrary in this Section 9, if, within twelve months following a Change in Control (A) Employee's employment is terminated for any reason other than death or Disability, or (B) Employee terminates his employment, he shall be entitled to the compensation and benefits provided in Sections 9(b) and 9(f)(ii), including, but not limited to, any other compensation or benefits, including the Maximum Cumulative Unit Value (as defined in the LTIP) for each unit awarded under the LTIP to the date of termination, benefits under equity grants and awards described in Section 6 above and employee benefits under plans

11

described in Section 8 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan.

(II) Immediately upon: (A) the filing by a third-party with the United States Securities and Exchange Commission of any proxy or tender offer material evidencing an intent to gain control of the Company; (B) the mailing of a proxy statement by the Company to shareholders requesting an affirmative vote regarding a Change in Control; or (C) the receipt of information by the Company that 40 percent or more of its outstanding common stock has been acquired by any person (as defined under the 1934 Act), the Company shall contribute to an irrevocable grantor trust (a "Rabbi Trust") an amount sufficient to enable all potential amounts due to Employee under this Section to be paid. The Company shall provide Employee with a certification of the payment to such trust of all such amounts. All such amounts which are due to Employee shall be paid using the assets of said trust except to the extent its terms preclude such payment, in which event payment shall be made by the Company from its own funds, or unless the Company elects to pay any or all such amounts from its own funds.

#### 10. PARACHUTES.

(a) APPLICATION. If all, or any portion, of the payments provided under this Agreement, and/or any other payments and benefits that Employee receives or is entitled to receive from Sabratek, including, but not limited to, amounts generated from the exercise and sale of options granted to Employee, constitutes an excess "parachute payment" within the meaning of Section 280G(b) of the Code, whether or not under an existing plan, arrangement or other agreement (each such parachute payment, a "Parachute Payment") and will result in the imposition on Employee of an excise tax under Section 4999 of the Code, then, in addition to any other benefits to which

Employee is entitled under this Agreement, Sabratek shall pay him an amount in cash equal to the sum of the excise taxes payable by him by reason of receiving such Parachute Payments, plus the amount necessary to put him in the same after-tax position (taking into account any and all applicable federal, state and local excise, income or other taxes at the highest possible applicable rates on such Parachute Payments (including without limitation any payments under this Section 10) as if no excise taxes had been imposed with respect to Parachute

Payments (the "Parachute Gross-up").

(b) COMPUTATION. The amount of any payment under this Section 10 shall be computed by Sabratek's certified public accounting firm in consultation with legal counsel acceptable to Employee. Employee and Sabratek shall provide the accounting firm with all information that it reasonably deems necessary in order to compute the Parachute Gross-up. The cost and expenses of the accounting firm retained to perform the computations shall be borne by Sabratek.

(c) PAYMENT. In any event, Sabratek shall pay to Employee, or pay on his behalf, the Parachute Gross-up as computed by the accounting firm by the time any taxes payable by him as a result of the Parachute Payments become due.

In the event that the Internal Revenue Service ("IRS") determines that the amount of excise taxes thereon initially paid was insufficient to discharge Employee's excise tax liability, Sabratek shall make additional payments to him as may be necessary to reimburse him for discharging the full liability.

13

14

## 11. CONFIDENTIALITY AND LOYALTY.

### (a) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent. Upon termination of Employee's



employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(c) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

14

15

(d) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 11(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 13 below.

## 12. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of one year after termination of his employment with Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 12(a), computed from the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 12(a), the Restrictive Covenant shall not:

16

(i) apply if Sabratek terminates Employee's employment without Cause, as provided in Section 9(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 12(a) above, Sabratek shall be entitled to relief as provided in Section 13 below.

### 13. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 11 (a), (b) and (c) and 12(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other rights, remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Employee and any and all persons directly or indirectly acting for or with him, as the case may be.

16

17

### 14. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any

compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

#### 15. WITHHOLDING TAXES.

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

#### 16. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

17

18

#### 17. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other plans of Sabratek in which senior executives are eligible to participate.

#### 18. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns. No rights or obligations of Sabratek under this Agreement may be assigned or transferred by Sabratek except pursuant to (a) a merger or consolidation or (b) sale or liquidation of all or substantially all of the assets of Sabratek, provided that the surviving entity or assignee or transferee is the successor to all or substantially all of the assets of Sabratek and, in the case of a sale or other transfer of assets or a merger in which Sabratek is

not the surviving entity, such surviving entity or assignee or transferee agrees in writing to assume the liabilities, obligations and duties of Sabratek under this Agreement. Notwithstanding such assignment, Sabratek shall remain liable and responsible for fulfillment of the terms and conditions of this Agreement; and provided further, that in no event shall such assignment of this Agreement adversely affect Employee's right upon a Change in Control, as provided in Section 9(i) above. No rights or obligations of Employee under this Agreement may be assigned or transferred by him.

#### 19. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm

18

19

or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 20. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Employee under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

#### 21. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and

signed by the Party to be charged with the waiver. No delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

## 22. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement

19

20

shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

## 23. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

## 24. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

## 25. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 11 or 12 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

## 26. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee

pursuant to any bona fide dispute or question of interpretation relating to this Agreement, including all such expenses and

20

21

fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek, Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

#### 27. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: Doron C. Levitas

FAX: (847) 647-2382

and

Doron C. Levitas  
1817 North Wolcott  
Chicago, Illinois 60622

## 28. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

## 29. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

SABRATEK CORPORATION

By: \_\_\_\_\_  
K. Shan Padma, Chairman  
and Chief Executive Officer





## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Scott Skooglund ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties" ) agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 12 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Employee being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that Sabratek in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding

securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same proportion as their ownership of stock of Sabratek immediately prior to such acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of three consecutive months, or for an aggregate of 135 days during any 12-

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 1999; provided, however, that unless either Party gives three months' written notice to the other that the Term shall not continue past September 27, 1999 or any subsequent 12-month period for which the Term has previously been extended, the Term shall thereafter automatically

extend for an additional 12-month period, unless the Term is sooner terminated as provided in Section 8 below.

(c) TITLES AND DUTIES.

(i) Until the date of termination of his employment hereunder, Employee shall be employed as Vice President of Finance, reporting to the President or his designee. In his capacity

4

5

as Vice President of Finance, Employee shall have the customary powers, responsibilities and authorities of vice president of finance of corporations of the size, type and nature of Sabratek.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

3. SALARY.

Employee shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$100,000. During the Term the Chief Executive Officer or his designee shall review his Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer or his designee may in its sole discretion increase Employee's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

4. BONUSSES.

(a) ANNUAL BONUS. Employee shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less than 10% of his Salary if he achieves 80% of specified performance objectives, (ii) less than 20% of his Salary if he achieves

5

6

100% of specified performance objectives, or (iii) less than 30% of his Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Chief Executive Officer or his designee and agreed to by Employee.

(b) SPECIAL BONUS. Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer or his designee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer or his designee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

#### 6. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek.

#### 7. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel

accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

#### 8. TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any deferred compensation payable under any deferred compensation plan of Sabratek;

(iv) any other compensation or benefits, including without limitation, benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may

then be entitled in accordance with the applicable terms and conditions of each grant, award or plan; and

(v) reimbursement in accordance with Section 6 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(i) Employee's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's employment hereunder for Cause only upon written notice to Employee not less than 10 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have the right to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 8(b).

(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek. Sabratek shall provide Employee ten

days' prior written notice of termination by it without Cause.

(ii) In the event of termination by Sabratek of Employee's employment without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(A) his Salary, at the rate in effect immediately before such termination, for a period of six months following the date of termination, such salary to be paid on Sabratek's normal payroll schedule; and

(B) a prorated annual bonus for the year in which terminated, such bonus to be paid at the same time annual bonuses are regularly paid by Sabratek; and

(C) continued coverage under the health program maintained by Sabratek for a period of six months; and

(D) notwithstanding anything in this Section 8(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive

Covenant" as provided in Section 10(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 10(a) hereof).

(g) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 30 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 8(e).

(h) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Chief Executive Officer or his designee or Employee may elect to treat the notice as a termination without Cause of Employee's employment; or (B) the non-renewal decision was made by Employee, in which case,



the Chief Executive Officer or his designee may elect to treat the notice as a voluntary termination of employment by Employee.

(i) CHANGE IN CONTROL. Notwithstanding anything to the contrary in this Section 8, if, within twelve months following a Change in Control (A) Employee's employment is terminated for any reason other than Cause, death or Disability, or (B) there is a material adverse change in Employee's compensation title or duties specified herein, he shall be entitled to the compensation and benefits provided in Sections 8(b) and 8(f)(ii), including, but not limited to, any other compensation or benefits under equity grants and awards described in Section 5 above and employee

10

11

benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan, provided that the term during which Employee is entitled to continue receiving his salary pursuant to Section 8(f)(ii)(A) hereof shall increase from six months to one year.

## 9. CONFIDENTIALITY AND LOYALTY.

### (a) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent.

Upon termination of Employee's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(c) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(d) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 9(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 11 below.

#### 10. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of six months after termination of his employment with Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 10(a), computed from

the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 10(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Employee's employment without Cause, as provided in Section 8(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 11(a) above, Sabratek shall be entitled to relief as provided in Section 11 below.

#### 11. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 9 (a), (b) and (c) and 10(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other

rights, remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent

injunctive relief to prevent or restrain any such violation by Employee and any and all persons directly or indirectly acting for or with him, as the case may be.

## 12. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

## 13. WITHHOLDING TAXES.

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

## 14. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term

for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

## 15. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other

plans of Sabratek in which senior executives are eligible to participate.

#### 16. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns.

#### 17. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 18. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, between Sabratek and Employee, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Employee under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in

such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

#### 19. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Party to be charged with the waiver. No delay by either Party in

exercising any right, power or privilege hereunder shall operate as a waiver thereof.

## 20. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

## 21. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

## 22. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

## 23. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 9 or 10 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

## 24. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee pursuant to any bona fide dispute or question of interpretation relating to this Agreement, including all such expenses and fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce

any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek, Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

17

18

## 25. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076

Attention: Scott Skooglund

FAX: (847) 647-2382

and

Scott Skooglund  
6504 Greene Road

18

19

Woodridge, Illinois 60517

26. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

27. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

SABRATEK CORPORATION

By: \_\_\_\_\_  
Stephen L. Holden, President

\_\_\_\_\_  
Scott Skooglund





## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Joseph P. Moser ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties" ) agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 12 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Employee being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that Sabratek in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same proportion as their ownership of stock of Sabratek immediately prior to such acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of three consecutive months, or for an aggregate of 135 days during any 12-

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 1999; provided, however, that unless either Party gives three months' written notice to the other that the Term shall not continue past September 27, 1999 or any subsequent 12-month period for which the Term has previously been extended, the Term shall thereafter automatically extend for an additional 12-month period, unless the Term is sooner terminated as provided in Section 8 below.

## (c) TITLES AND DUTIES.

(i) Until the date of termination of his employment hereunder, Employee shall be employed as Vice President of Engineering, reporting to the Chief Operating Officer or his designee. In his capacity as Vice President of Engineering, Employee shall have the customary

4

5

powers, responsibilities and authorities of a vice president of engineering of corporations of the size, type and nature of Sabratek.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

3. SALARY.

Employee shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$102,000. During the Term the Chief Executive Officer or his designee shall review his Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer or his designee may in its sole discretion increase Employee's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

4. BONUSES.

(a) ANNUAL BONUS. Employee shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less than 5% of his Salary if he achieves 80% of specified performance objectives,

(ii) less than 10% of his Salary if he achieves

5

6

100% of specified performance objectives, or (iii) less than 20% of his Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Chief Executive Officer or his designee and agreed to by Employee.

(b) SPECIAL BONUS. Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer or his designee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer or his designee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

#### 6. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek.

#### 7. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel

6

accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

#### 8. TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any deferred compensation payable under any deferred compensation plan of Sabratek;

(iv) any other compensation or benefits, including without limitation, benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may

then be entitled in accordance with the applicable terms and conditions of each grant, award or plan; and

(v) reimbursement in accordance with Section 6 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(i) Employee's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's employment hereunder for Cause only upon written notice to Employee not less than 10 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have the right to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 8(b).

(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek. Sabratek shall provide Employee ten days' prior written notice of termination by it without Cause.



(ii) In the event of termination by Sabratek of Employee's employment without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(a) his Salary, at the rate in effect immediately before such termination, for a period of six months following the date of termination, such salary to be paid on Sabratek's normal payroll schedule; and

(b) a prorated annual bonus for the year in which terminated, such bonus to be paid at the same time annual bonuses are regularly paid by Sabratek; and

(c) continued coverage under the health program maintained by Sabratek for a period of six months; and

(d) notwithstanding anything in this Section 8(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive

Covenant" as provided in Section 10(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 10(a) hereof).

(g) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 30 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 8(e).

(h) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Chief Executive Officer or his designee or Employee may elect to treat the notice as a termination without Cause of Employee's employment; or (B) the non-renewal decision was made by Employee, in which case, the Chief Executive Officer or his designee may elect to treat the notice as a voluntary termination of employment by Employee.

(i) CHANGE IN CONTROL. Notwithstanding anything to the contrary in this

Section 8, if, within twelve months following a Change in Control (A) Employee's employment is terminated for any reason other than Cause, death or Disability, or (B) there is a material adverse change in Employee's compensation, title or duties specified herein, he shall be entitled to the compensation and benefits provided in Sections 8(b) and 8(f)(ii), including, but not limited to, any other compensation or benefits under equity grants and awards described in Section 5 above and employee

10

11

benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan, provided that the term during which Employee is entitled to continue receiving his salary pursuant to Section 8(f)(ii)(A) hereof shall increase from six months to one year.

#### 9. CONFIDENTIALITY AND LOYALTY.

##### (a) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent.

11

Upon termination of Employee's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(c) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(d) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 9(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 11 below.

#### 10. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of six months after termination of his employment with Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 10(a), computed from

the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 10(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Employee's employment without Cause, as provided in Section 8(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 11(a) above, Sabratek shall be entitled to relief as provided in Section 11 below.

#### 11. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 9 (a), (b) and (c) and 10(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other rights,

remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive

relief to prevent or restrain any such violation by Employee and any and all persons directly or indirectly acting for or with him, as the case may be.

## 12. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

## 13. WITHHOLDING TAXES.

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

## 14. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term

for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

## 15. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other

plans of Sabratek in which senior executives are eligible to participate.

#### 16. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns.

#### 17. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 18. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, between Sabratek and Employee, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Employee under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in

such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

#### 19. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Party to be charged with the waiver. No delay by either Party in

exercising any right, power or privilege hereunder shall operate as a waiver thereof.

## 20. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

## 21. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

## 22. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

## 23. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 9 or 11 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

## 24. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee pursuant to any bona fide dispute or question of interpretation relating to this Agreement, including all such expenses and fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce

any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek, Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

17

18

## 25. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076



Attention: Joseph P. Moser  
FAX: (847) 647-2382

and

Joseph P. Moser  
25 W 741 Marshall Lane  
Wheaton, Illinois 60188

18

19

## 26. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

## 27. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

SABRATEK CORPORATION

By: \_\_\_\_\_  
Stephen L. Holden, President

\_\_\_\_\_  
Joseph P. Moser



## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Vincent J. Capponi ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties") agree as follows:

## 2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 12 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Employee being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that Sabratek in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

2

3

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same proportion as their ownership of stock of Sabratek immediately prior to such acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of

three consecutive months, or for an aggregate of 135 days during any 12-

3

4

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 1999; provided, however, that unless either Party gives three months' written notice to the other that the Term shall not continue past September 27, 1999 or any subsequent 12-month period for which the Term has previously been extended, the Term shall thereafter automatically extend for an additional 12-month period, unless the Term is sooner terminated as provided in Section 8 below.

(c) TITLES AND DUTIES. Until the date of termination of his employment hereunder, Employee shall be employed as Vice President and Chief Operating Officer, reporting to the Chief Executive Officer or his designee. In his capacity as Vice President and Chief Operating Officer,

4

5

Employee shall have the customary powers, responsibilities and authorities of vice president and chief operating officer of corporations of the size, type and nature of Sabratek.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of

Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

### 3. SALARY.

Employee shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$175,000. During the Term the Chief Executive Officer or his designee shall review his Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer or his designee may in its sole discretion increase Employee's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

### 4. BONUSES.

(a) ANNUAL BONUS. Employee shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less than 40% of his Salary if he achieves 80% of specified performance objectives, (ii) less than 50% of his Salary if he achieves

5

6

100% of specified performance objectives, or (iii) less than 60% of his Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Chief Executive Officer or his designee and agreed to by Employee.

(b) SPECIAL BONUS. Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer or his designee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

### 5. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer or his designee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

## 6. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek.

## 7. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel

6

7

accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

## 8. TERMINATION OF EMPLOYMENT.

### (a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT.

Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any deferred compensation payable under any deferred compensation

plan of Sabratek;

(iv) any other compensation or benefits, including without limitation, benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may

7

8

then be entitled in accordance with the applicable terms and conditions of each grant, award or plan; and

(v) reimbursement in accordance with Section 6 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(i) Employee's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's employment hereunder for Cause only upon written notice to Employee not less than 10 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have the right to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

8

9

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 8(b).



(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek. Sabratek shall provide Employee ten days' prior written notice of termination by it without Cause.

(ii) In the event of termination by Sabratek of Employee's employment without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(A) his Salary, at the rate in effect immediately before such termination, for a period of one year following the date of termination, such salary to be paid on Sabratek's normal payroll schedule; and

(B) a prorated annual bonus for the year in which terminated, such bonus to be paid at such time annual bonuses are regularly paid by Sabratek; and

(C) continued coverage under the health program maintained by Sabratek for a period of one year; and

(D) notwithstanding anything in this Section 8(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive

Covenant" as provided in Section 10(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 10(a) hereof).

(g) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 30 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 8(e).

(h) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Chief Executive Officer or his designee or Employee may elect to treat the notice as a termination without Cause of Employee's employment; or (B) the non-renewal decision was made by Employee, in which case,

the Chief Executive Officer or his designee may elect to treat the notice as a voluntary termination of employment by Employee.

(i) CHANGE IN CONTROL. Notwithstanding anything to the contrary in this Section 8, if, within twelve months following a Change in Control (A) Employee's employment is terminated for any reason other than Cause, death or Disability, or (B) there is a material adverse change in Employee's compensation, title or duties specified herein, he shall be entitled to the compensation and benefits provided in Sections 8(b) and 8(f)(ii), including, but not limited to, any other compensation or benefits under equity grants and awards described in Section 5 above and employee

10

11

benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan, provided that the period during which Employee shall continue receiving his salary pursuant to Section 8(f)(ii)(A) hereof shall increase from one year to two years.

## 9. CONFIDENTIALITY AND LOYALTY.

### (a) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent.

11

Upon termination of Employee's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(c) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(d) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 9(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 11 below.

#### 10. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of one year after termination of his employment with Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 10(a), computed from

12

13

the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 10(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Employee's employment without Cause, as provided in Section 8(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 10(a) above, Sabratek shall be entitled to relief as provided in Section 11 below.

#### 11. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 9 (a), (b) and (c) and 10(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other

13

14

rights, remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Employee and any and all persons directly or indirectly acting for or with him, as the case may be.

#### 12. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

#### 13. WITHHOLDING TAXES.

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

#### 14. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term

14

15

for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

#### 15. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other plans of Sabratek in which senior executives are eligible to participate.

#### 16. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns.

#### 17. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 18. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the

entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, including without limitation, the agreement made and entered into as of June 18, 1996, between Sabratek and Employee as heretofore amended and supplemented, provided that the execution of this Agreement shall not adversely (i) affect any award previously made to Employee

15

16

under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

#### 19. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Party to be charged with the waiver. No delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

#### 20. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

#### 21. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

16

17

#### 22. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in

accordance with the laws of Illinois, without reference to principles of conflict of laws.

## 23. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 9 or 11 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator=s award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

## 24. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee pursuant to any bona fide dispute or question of interpretation relating to this Agreement, including all such expenses and fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek,

17

18

Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

## 25. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of :

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue

Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: Vincent J. Capponi

FAX: (847) 647-2382

18

19

and

Vincent J. Capponi  
728 Elmwood Avenue  
Evanston, Illinois 60202

## 26. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

## 27. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.



By: -----  
K. Shan Padda, Chairman  
and Chief Executive Officer

-----  
Vincent J. Capponi

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Tuan Bui ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties" ) agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 12 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Employee being found guilty of a felony or an act of fraud or

embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that Sabratek in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same

proportion as their ownership of stock of Sabratek immediately prior to such acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of three consecutive months, or for an aggregate of 135 days during any 12-

3

4

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 1999; provided, however, that unless either Party gives three months' written notice to the other that the Term shall not continue past September 27, 1999 or any subsequent 12-month period for which the Term has previously been extended, the Term shall thereafter automatically extend for an additional 12-month period, unless the Term is sooner terminated as provided in Section 8 below.

(c) TITLES AND DUTIES.

(i) Until the date of termination of his employment hereunder, Employee shall be employed as Vice President of Research and Development, reporting to the Chief Operating Officer or his designee. In his capacity as Vice President of Research and Development, Employee

4

5

shall have the customary powers, responsibilities and authorities of vice president of research and development of corporations of the size, type and nature of Sabratek.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

3. SALARY.

Employee shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$125,000. During the Term the Chief Executive Officer or his designee shall review his Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer or his designee may in its sole discretion increase Employee's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

4. BONUSES.

(a) ANNUAL BONUS. Employee shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less

than 10% of his Salary if he achieves 80% of specified performance objectives,  
(ii) less than 20% of his Salary if he achieves

5

6

100% of specified performance objectives, or (iii) less than 30% of his Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Chief Executive Officer or his designee and agreed to by Employee.

(b) SPECIAL BONUS. Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer or his designee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer or his designee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

#### 6. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek.

#### 7. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel

6

accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

#### 8. TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any deferred compensation payable under any deferred compensation plan of Sabratek;

(iv) any other compensation or benefits, including without limitation, benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may

then be entitled in accordance with the applicable terms and conditions of each

grant, award or plan; and

(v) reimbursement in accordance with Section 6 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(i) Employee's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's employment hereunder for Cause only upon written notice to Employee not less than 10 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have the right to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 8(b).

(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek. Sabratek shall provide Employee ten



days' prior written notice of termination by it without Cause.

(ii) In the event of termination by Sabratek of Employee's employment without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(A) his Salary, at the rate in effect immediately before such termination, for a period of six months following the date of termination, such salary to be paid on Sabratek's normal payroll schedule; and

(B) a prorated annual bonus for the year in which terminated, such bonus to be paid at the same time annual bonuses are regularly paid by Sabratek; and

(C) continued coverage under the health program maintained by Sabratek for a period of six months; and

(D) notwithstanding anything in this Section 8(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive

Covenant" as provided in Section 10(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 10(a) hereof).

(g) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 30 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 8(e).

(h) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, (1) the Chief Executive Officer or his designee or Employee may elect to treat the notice as a termination without Cause of Employee's employment, or (2) Employee may elect to treat the notice as termination for Cause; or (B) the non-renewal decision was made by Employee, in

which case, the Chief Executive Officer or his designee may elect to treat the notice as a voluntary termination of employment by Employee.

(i) CHANGE IN CONTROL. Notwithstanding anything to the contrary in this Section 8, if, within twelve months following a Change in Control (A) Employee's employment is terminated for any reason other than Cause, death or Disability, or (B) there is a material adverse change in Employee's compensation, title or duties specified herein, he shall be entitled to the compensation and benefits provided in Sections 8(b) and 8(f)(ii), including, but not limited to, any other compensation or benefits under equity grants and awards described in Section 5 above and employee

10

11

benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan, provided that the term during which Employee is entitled to continue receiving his salary pursuant to Section 8(f)(ii)(A) hereof shall increase from six months to one year.

#### 9. CONFIDENTIALITY AND LOYALTY.

##### (a) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent.

Upon termination of Employee's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(c) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(d) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 9(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 11 below.

#### 10. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of six months after termination of his employment with Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 10(a), computed from

the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 10(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Employee's employment without Cause, as provided in Section 8(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 11(a) above, Sabratek shall be entitled to relief as provided in Section 11 below.

#### 11. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 9 (a), (b) and (c) and 10(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other rights,

remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive

relief to prevent or restrain any such violation by Employee and any and all persons directly or indirectly acting for or with him, as the case may be.

## 12. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

## 13. WITHHOLDING TAXES.

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

## 14. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term

for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

## 15. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other plans of Sabratek in which senior executives are eligible to participate.

#### 16. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns.

#### 17. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 18. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, between Sabratek and Employee, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Employee under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in

such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

#### 19. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Party to be charged with the waiver. No delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver

thereof.

## 20. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

## 21. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

## 22. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

## 23. ARBITRATION.

16

17

Any dispute or controversy other than a dispute or controversy arising under Sections 9 or 11 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

## 24. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee pursuant to any bona fide dispute or question of interpretation relating to this Agreement, including all such expenses and fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce any right or benefit provided by this Agreement, shall be paid or reimbursed by

Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek, Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

17

18

## 25. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: Tuan Bui



and

Tuan Bui  
14436 Greenfield Court

18

19

Green Oaks, Illinois 60048

26. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

27. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

SABRATEK CORPORATION

By: \_\_\_\_\_  
Vincent J. Capponi, Chief Operating  
Officer

\_\_\_\_\_  
Tuan Bui



## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Stephan C. Beal ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties" ) agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 12 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Employee being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that Sabratek in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same

proportion as their ownership of stock of Sabratek immediately prior to such acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of three consecutive months, or for an aggregate of 135 days during any 12-

3

4

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary and commissions provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 1999; provided, however, that unless either Party gives three months' written notice to the other that the Term shall not continue past September 27, 1999 or any subsequent 12-month period for which the Term has previously been extended, the Term shall thereafter automatically extend for an additional 12-month period, unless the Term is sooner terminated as provided in Section 8 below.

(c) TITLES AND DUTIES.

(i) Until the date of termination of his employment hereunder, Employee shall be employed as Vice President of Sales, reporting to the President or his designee. In his capacity

4

5

as Vice President of Sales, Employee shall have the customary powers, responsibilities and authorities of vice president of sales of corporations of the size, type and nature of Sabratek.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

3. SALARY.

(a) BASE SALARY. Employee shall receive from Sabratek a Base Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$100,000. During the Term the Chief Executive Officer or his designee shall review his Base Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer or his designee may in its sole discretion increase Employee's Base Salary accordingly.

(b) COMMISSIONS. In addition to the Base Salary provided for above, Employee shall be entitled to receive Commissions related to the sales of Sabratek's products according to a commission plan determined and approved at the beginning of each year by the Chief Executive Officer or his designee and

agreed to by Employee. The terms "Base Salary" and "Commissions"

5

6

as used in this Agreement shall refer to his Base Salary and Commissions at any time as so adjusted and the term "Salary" shall mean the combination of such Base Salary and Commissions as so adjusted.

#### 4. BONUSES.

(a) ANNUAL BONUS. Employee shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less than 5% of his Base Salary if he achieves 80% of specified performance objectives, (ii) less than 10% of his Base Salary if he achieves 100% of specified performance objectives, or (iii) less than 20% of his Base Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Chief Executive Officer or his designee and agreed to by Employee.

(b) SPECIAL BONUS. Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer or his designee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer or his designee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

6

7

#### 6. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing

services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek.

#### 7. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including Salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

#### 8. TERMINATION OF EMPLOYMENT.

(A) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(B) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any deferred compensation payable under any deferred compensation plan of Sabratek;



(iv) any other compensation or benefits, including without limitation, benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan; and

(v) reimbursement in accordance with Section 6 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(C) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(i) Employee's Base Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(D) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(E) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's employment hereunder for Cause only upon written notice to Employee not less than 10 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have the right to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 8(b).

(F) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek. Sabratek shall provide Employee ten days' prior written notice of termination by it without Cause.

(ii) In the event of termination by Sabratek of Employee's employment without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

9

10

(A) his Base Salary, at the rate in effect immediately before such termination, for a period of six months following the date of termination and Commissions in an amount equal to six times the monthly average of the Commissions earned by Employee for the 18 months preceding the month in which his employment is terminated, such amounts to be paid on Sabratek's normal payroll schedule; and

(B) a prorated annual bonus for the year in which terminated, such bonus to be paid at the same time annual bonuses are regularly paid by Sabratek; and

(C) continued coverage under the health program maintained by Sabratek for a period of six months; and

(D) notwithstanding anything in this Section 8(f) to the contrary, Sabratek shall have no further obligation to make any Salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive Covenant" as provided in Section 10(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 10(a) hereof).

(G) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 30 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 8(e).

(H) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew

pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in

10

11

effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Chief Executive Officer or his designee or Employee may elect to treat the notice as a termination without Cause of Employee's employment; or (B) the non-renewal decision was made by Employee, in which case, the Chief Executive Officer or his designee may elect to treat the notice as a voluntary termination of employment by Employee.

(I) CHANGE IN CONTROL. Notwithstanding anything to the contrary in this Section 8, if, within twelve months following a Change in Control (A) Employee's employment is terminated for any reason other than Cause, death or Disability, or (B) there is a material adverse change in Employee's compensation, title or duties specified herein, he shall be entitled to the compensation and benefits provided in Sections 8(b) and 8(f)(ii), including, but not limited to, any other compensation or benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan, provided that the term during which Employee is entitled to continue receiving his Base Salary and Commissions pursuant to Section 8(f)(ii)(A) hereof shall increase from six months to one year.

## 9. CONFIDENTIALITY AND LOYALTY.

### (A) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public

11

12

(collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(B) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent. Upon termination of Employee's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(C) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(D) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 9(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 11 below.

#### 10. NONCOMPETITION/NONSOLICITATION.

(A) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of six months after termination of his employment with

Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as

Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 10(a), computed from the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 10(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Employee's employment without Cause, as provided in Section 8(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

13

14

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 11(a) above, Sabratek shall be entitled to relief as provided in Section 11 below.

#### 11. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 9(a), (b) and (c) and 10(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such

violation, and (c) in addition to and not in limitation of, any other rights, remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Employee and any and all persons directly or indirectly acting for or with him, as the case may be.

## 12. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's

14

15

death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

## 13. WITHHOLDING TAXES.

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

## 14. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

## 15. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other

plans of Sabratek in which senior executives are eligible to participate.

15

16

#### 16. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns.

#### 17. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 18. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, between Sabratek and Employee, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Employee under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

#### 19. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either

16

Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Party to be charged with the waiver. No delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

#### 20. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

#### 21. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

#### 22. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

#### 23. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 9 or 11 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office

of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in



any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

#### 24. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee pursuant to any bona fide dispute or question of interpretation relating to this Agreement, including all such expenses and fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek, Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

#### 25. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

18

19

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue

Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: Stephan C. Beal  
  
FAX: (847) 647-2382

and

Stephan C. Beal  
33 Barstow Avenue  
Norwell, MA 02061

## 26. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

## 27. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

SABRATEK CORPORATION

By: \_\_\_\_\_  
Stephen L. Holden, President

\_\_\_\_\_  
Stephan C. Beal

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Stephen L. Axel ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties") agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 12 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Employee being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that Sabratek in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same proportion as their ownership of stock of Sabratek immediately prior to such

acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of three consecutive months, or for an aggregate of 135 days during any 12-

3

4

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 1999; provided, however, that unless either Party gives three months' written notice to the other that the Term shall not continue past September 27, 1999 or any subsequent 12-month period for which the Term has previously been extended, the Term shall thereafter automatically extend for an additional 12-month period, unless the Term is sooner terminated as provided in Section 8 below.

## (c) TITLES AND DUTIES.

(i) Until the date of termination of his employment hereunder, Employee shall be employed as Vice President of Marketing, reporting to the President or his designee. In his capacity as Vice President of Marketing, Employee shall have the customary powers, responsibilities

4

5

and authorities of vice president of marketing of corporations of the size, type and nature of Sabratek.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

3. SALARY.

Employee shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$120,000. During the Term the Chief Executive Officer or his designee shall review his Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer or his designee may in its sole discretion increase Employee's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

4. BONUSES.

(a) ANNUAL BONUS. Employee shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less than 10% of his Salary if he achieves 80% of specified performance objectives, (ii) less than 20% of his Salary if he achieves

100% of specified performance objectives, or (iii) less than 30% of his Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Chief Executive Officer or his designee and agreed to by Employee.

(b) SPECIAL BONUS. Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer or his designee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer or his designee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

#### 6. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek.

#### 7. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel



accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

#### 8. TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any deferred compensation payable under any deferred compensation plan of Sabratek;

(iv) any other compensation or benefits, including without limitation, benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may

then be entitled in accordance with the applicable terms and conditions of each

grant, award or plan; and

(v) reimbursement in accordance with Section 6 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(i) Employee's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's employment hereunder for Cause only upon written notice to Employee not less than 10 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have the right to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 8(b).

(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek. Sabratek shall provide Employee ten days' prior written notice of termination by it without Cause.

(ii) In the event of termination by Sabratek of Employee's employment without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(A) his Salary, at the rate in effect immediately before such termination, for a period of six months following the date of termination, such salary to be paid on Sabratek's normal payroll schedule; and

(B) a prorated annual bonus for the year in which terminated, such bonus to be paid at the same time annual bonuses are regularly paid by Sabratek; and

(C) continued coverage under the health program maintained by Sabratek for a period of six months; and

(D) notwithstanding anything in this Section 8(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive

Covenant" as provided in Section 10(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 10(a) hereof).

(g) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 60 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 8(e).

(h) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Chief Executive Officer or his designee or Employee may elect to treat the notice as a termination without Cause of Employee's employment; or (B) the non-renewal decision was made by Employee, in which case, the Chief Executive Officer or his designee may elect to treat the notice as a

voluntary termination of employment by Employee.

(i) CHANGE IN CONTROL. Notwithstanding anything to the contrary in this Section 8, if, within twelve months following a Change in Control (A) Employee's employment is terminated for any reason other than Cause, death or Disability, or (B) there is a material adverse change in Employee's compensation, title or duties specified herein, he shall be entitled to the compensation and benefits provided in Sections 8(b) and 8(f)(ii), including, but not limited to, any other compensation or benefits under equity grants and awards described in Section 5 above and employee

10

11

benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan, provided that the term during which Employee is entitled to continue receiving his salary pursuant to Section 8(f)(ii)(A) hereof shall increase from six months to one year.

## 9. CONFIDENTIALITY AND LOYALTY.

### (a) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent.

Upon termination of Employee's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(c) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(d) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 9(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 11 below.

#### 10. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of six months after termination of his employment with Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 10(a), computed from

the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 10(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Employee's employment without Cause, as provided in Section 8(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 11(a) above, Sabratek shall be entitled to relief as provided in Section 11 below.

#### 11. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 9 (a), (b) and (c) and 10(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other

rights, remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Employee and any and all persons directly or indirectly acting for or with him, as the case may be.

## 12. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

## 13. WITHHOLDING TAXES.

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

## 14. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term

for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

## 15. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other plans of Sabratek in which senior executives are eligible to participate.

#### 16. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns.

#### 17. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 18. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, between Sabratek and Employee, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Employee under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in

such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

#### 19. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision



at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Party to be charged with the waiver. No delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

#### 20. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

#### 21. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

#### 22. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

16

17

#### 23. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 9 or 11 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

#### 24. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee pursuant to any bona fide dispute or question of interpretation relating to this

Agreement, including all such expenses and fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek, Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

17

18

## 25. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: Stephen L. Axel

FAX: (847) 647-2382

and

Stephen L. Axel  
319 Lakeview Court

18

19

Deerfield, Illinois 60015

## 26. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

## 27. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

SABRATEK CORPORATION

By: \_\_\_\_\_  
Stephen L. Holden, President

\_\_\_\_\_  
Stephen L. Axel



## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Paul S. Jurewicz ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties" ) agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 12 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Employee being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that Sabratek in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same proportion as their ownership of stock of Sabratek immediately prior to such

acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of three consecutive months, or for an aggregate of 135 days during any 12-

3

4

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 1999; provided, however, that unless either Party gives three months' written notice to the other that the Term shall not continue past September 27, 1999 or any subsequent 12-month period for which the Term has previously been extended, the Term shall thereafter automatically extend for an additional 12-month period, unless the Term is sooner terminated as provided in Section 8 below.

## (c) TITLES AND DUTIES.

(i) Until the date of termination of his employment hereunder, Employee shall be employed as Senior Vice President and Chief Financial Officer, reporting to the President or his designee. In his capacity as Senior Vice President and Chief Financial Officer, Employee shall have

4

5

the customary powers, responsibilities and authorities of senior vice president and chief financial officer of corporations of the size, type and nature of Sabratek.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

3. SALARY.

Employee shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$175,000. During the Term the Chief Executive Officer or his designee shall review his Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer or his designee may in its sole discretion increase Employee's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

4. BONUSES.

(a) ANNUAL BONUS. Employee shall be eligible to receive an annual bonus for each Year or portion thereof during the Term, which bonus shall not be (i) less than 20% of his Salary if he achieves 80% of specified performance objectives, (ii) less than 30% of his Salary if he achieves



100% of specified performance objectives, or (iii) less than 40% of his Salary if he achieves 120% of specified performance objectives for any Year. The performance objectives shall be determined and approved at the beginning of each Year by the Chief Executive Officer or his designee and agreed to by Employee.

(b) SPECIAL BONUS. Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer or his designee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer or his designee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

#### 6. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek.

#### 7. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel

accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

#### 8. TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any deferred compensation payable under any deferred compensation plan of Sabratek;

(iv) any other compensation or benefits, including without limitation, benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may

then be entitled in accordance with the applicable terms and conditions of each grant, award or plan; and

(v) reimbursement in accordance with Section 6 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(i) Employee's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's employment hereunder for Cause only upon written notice to Employee not less than 10 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have the right to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 8(b).

(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek. Sabratek shall provide Employee ten days' prior written notice of termination by it without Cause.

(ii) In the event of termination by Sabratek of Employee's employment

without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(A) his Salary, at the rate in effect immediately before such termination, for a period of one year following the date of termination, such salary to be paid on Sabratek's normal payroll schedule; and

(B) a prorated annual bonus for the year in which terminated, such bonus to be paid at such time annual bonuses are regularly paid by Sabratek; and

(C) continued coverage under the health program maintained by Sabratek for a period of one year; and

(E) notwithstanding anything in this Section 8(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive

Covenant" as provided in Section 10(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 10(a) hereof).

(g) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 30 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 8(e).

(h) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Chief Executive Officer or his designee or Employee may elect to treat the notice as a termination without Cause of Employee's employment; or (B) the non-renewal decision was made by Employee, in which case, the Chief Executive Officer or his designee may elect to treat the notice as a voluntary termination of employment by Employee.

(i) CHANGE IN CONTROL. Notwithstanding anything to the contrary in this Section 8, if, within twelve months following a Change in Control (A) Employee's

employment is terminated for any reason other than Cause, death or Disability, or (B) there is a material adverse change in Employee's compensation, title or duties specified herein, he shall be entitled to the compensation and benefits provided in Sections 8(b) and 8(f)(ii), including, but not limited to, any other compensation or benefits under equity grants and awards described in Section 5 above and employee

10

11

benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan, provided that the period during which Employee shall continue receiving his salary pursuant to Section 8(f)(ii)(A) hereof shall increase from one year to two years.

#### 9. CONFIDENTIALITY AND LOYALTY.

##### (a) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent.

Upon termination of Employee's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

(c) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(d) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 9(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 11 below.

#### 10. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of one year after termination of his employment with Sabratek for any reason (the "Restrictive Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 10(a), computed from

the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 10(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Employee's employment without Cause, as provided in Section 8(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 11(a) above, Sabratek shall be entitled to relief as provided in Section 11 below.

#### 11. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 9 (a), (b) and (c) and 10(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other

rights, remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Employee and any

and all persons directly or indirectly acting for or with him, as the case may be.

## 12. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

## 13. WITHHOLDING TAXES.

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

## 14. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek. Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term

for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

## 15. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other plans of Sabratek in which senior executives are eligible to participate.



#### 16. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns.

#### 17. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 18. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, including without limitation, the agreement made and entered into as of July 6, 1998, between Sabratek and Employee as heretofore amended and supplemented, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Employee

15

16

under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options or other benefits in such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

#### 19. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and

signed by the Party to be charged with the waiver. No delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

## 20. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

## 21. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

16

17

## 22. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

## 23. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 9 or 11 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

## 24. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee pursuant to any bona fide dispute or question of interpretation relating to this

Agreement, including all such expenses and fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek,

17

18

Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

#### 25. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: Paul S. Jurewicz

FAX: (847) 647-2382

18

19

and

Paul S. Jurewicz  
2261 Churchill  
Libertyville, Illinois 60048

## 26. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

## 27. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

SABRATEK CORPORATION

By: \_\_\_\_\_  
Stephen L. Holden, President

\_\_\_\_\_  
Paul S. Jurewicz



## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of September 28, 1998, by and between Sabratek Corporation, a Delaware corporation, with its principal office located at 8111 North St. Louis Avenue, Skokie, Illinois 60076 (together with its successors and assigns permitted under this Agreement, "Sabratek") and Mary Beth Blue ("Employee").

## WITNESSETH:

WHEREAS, Sabratek has determined that it is in the best interests of Sabratek and its stockholders to continue to employ Employee and to set forth in this Agreement the obligations and duties of both Sabratek and Employee; and

WHEREAS, Sabratek wishes to assure itself of the services of Employee for the period hereinafter provided, and Employee is willing to be employed by Sabratek for said period, upon the terms and conditions provided in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, Sabratek and Employee (individually a "Party" and together the "Parties" ) agree as follows:

1

2

## 1. DEFINITIONS.

(a) "BENEFICIARY" shall mean the person or persons named by Employee pursuant to Section 12 below or, in the event that no such person is named who survives Employee, his estate.

(b) "BOARD" shall mean the Board of Directors of Sabratek.

(c) "CAUSE" shall mean:

(i) Employee being found guilty of a felony or an act of fraud or embezzlement, in each case related to Sabratek or its business;

(ii) any repeated and demonstrated failure by Employee to discharge faithfully the responsibilities of his position that Sabratek in good faith determines is extremely detrimental to the current and future interests of Sabratek; or

(iii) a material breach by Employee of any provision of this Agreement.

(d) "CHANGE IN CONTROL" shall mean the occurrence of any of the following events:

(i) Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 40 percent or more of the combined voting power of the then outstanding voting securities of Sabratek; or

(ii) The individuals who, as of the date hereof, are members of the Board cease for any reason to constitute a majority of the Board, unless the election, or nomination for election by the stockholders of Sabratek, of any new director or directors was approved by a vote of a majority of the Board, in which case such new director or directors shall, for purposes of this Agreement, be considered as a member or members of the Board; or

(iii) Approval by stockholders of Sabratek of (A) a merger or consolidation of Sabratek if the stockholders immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than 60 percent of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of Sabratek outstanding immediately before such merger or consolidation; or (B) a complete liquidation or dissolution, or an agreement for the sale or other disposition, of all or substantially all of the assets of Sabratek.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because 40 percent or more of the combined voting power of the then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of Sabratek, or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of Sabratek in the same proportion as their ownership of stock of Sabratek immediately prior to such

acquisition.

(e) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "COMMITTEE" shall mean the Compensation Committee of the Board.

(g) "DISABILITY" shall mean the illness or other mental or physical disability of Employee, as determined under the long-term disability plan of Sabratek covering Employee, or if no such plan exists, Employee's failure (i) to perform substantially his material duties under this Agreement for a period of three consecutive months, or for an aggregate of 135 days during any 12-

3

4

month period, and (ii) to return to the performance of his duties within 30 days after receiving written notice of termination.

(h) "SALARY" shall mean the annual salary provided for in Section 3 below, as adjusted from time to time.

(i) "TERM OF EMPLOYMENT" OR "TERM" shall mean the period specified in Section 2(b) below.

(j) "YEAR" shall mean the calendar year, which is the fiscal year of Sabratek.

## 2. EMPLOYMENT TERM, POSITIONS AND DUTIES.

(a) EMPLOYMENT OF EMPLOYEE. Sabratek hereby continues to employ Employee, and Employee hereby accepts continued employment with Sabratek, in the positions and with the duties and responsibilities set forth below and upon such other terms and conditions as are hereinafter stated.

(b) TERM OF EMPLOYMENT. The Term of Employment shall commence on the date hereof and shall terminate on September 27, 1999; provided, however, that unless either Party gives three months' written notice to the other that the Term shall not continue past September 27, 1999 or any subsequent 12-month period for which the Term has previously been extended, the Term shall thereafter automatically extend for an additional 12-month period, unless the Term is sooner terminated as provided in Section 8 below.

## (c) TITLES AND DUTIES.



(i) Until the date of termination of his employment hereunder, Employee shall be employed as Director of Clinical Services, reporting to the President or his designee. In his capacity as Director of Clinical Services, Employee shall have the customary powers, responsibilities

4

5

and authorities of a director of clinical services of corporations of the size, type and nature of Sabratek.

(d) TIME AND EFFORT.

(i) Employee agrees to devote his full business time to the affairs of Sabratek in order to carry out his duties and responsibilities under this Agreement.

(ii) Notwithstanding the foregoing, nothing shall preclude Employee from (A) serving on the boards of a reasonable number of trade associations, charitable organizations and/or businesses not in competition with Sabratek, (B) engaging in charitable activities and community affairs, and (C) managing his personal investments and affairs; provided, however, that, such activities do not materially interfere with the proper performance of his duties and responsibilities specified in Section 2 (c).

3. SALARY.

Employee shall receive from Sabratek a Salary, payable in accordance with the regular payroll practices of Sabratek, in a minimum amount of \$100,625. During the Term the Chief Executive Officer or his designee shall review his Salary no less often than once each Year, commencing January 1, 1999. On the basis of any such review, the Chief Executive Officer or his designee may in its sole discretion increase Employee's Salary accordingly. The term "Salary" as used in this Agreement shall refer to his Salary at any time as so adjusted.

4. BONUSES.

Employee shall be eligible to receive additional bonuses during the Term. The Chief Executive Officer or his designee shall determine, in its discretion, the occasion for payment, and the amount, of any such bonus.

#### 5. EQUITY OPPORTUNITY.

During the Term, Employee shall be eligible to receive grants of options to purchase shares of Sabratek's stock and awards of shares of Sabratek's stock, either or both as determined by the Chief Executive Officer or his designee, under and in accordance with the terms of applicable plans of Sabratek and related option and award agreements.

#### 6. EXPENSE REIMBURSEMENT; CERTAIN OTHER COSTS.

During the Term, Employee shall be entitled to prompt reimbursement by Sabratek for all reasonable out-of-pocket expenses incurred by him in performing services under this Agreement, upon his submission of such accounts and records as may be reasonably required by Sabratek.

#### 7. EMPLOYEE BENEFIT PLANS.

During the Term Employee shall be entitled to all benefits specifically established for him, and to participate in all employee benefit plans and programs made available to Sabratek's senior executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension and other retirement plans, profit-sharing plans, savings and similar plans, group life insurance, accidental death and dismemberment insurance, travel accident insurance, hospitalization insurance, surgical insurance, major and excess major medical insurance, dental insurance, short-term and long-term disability insurance, sick leave (including salary continuation arrangements), holidays, vacation and any other employee benefit plans or programs that may be sponsored by Sabratek from time to time, including plans that supplement the above-listed types of plans, whether funded or unfunded.

#### 8. TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY TERMINATION AND TERMINATION BY MUTUAL AGREEMENT. Employee may terminate his employment voluntarily at any time. If he does so, his entitlement hereunder shall be the same as if Sabratek had terminated his employment for

Cause. The Parties may terminate this Agreement by mutual agreement at any time. If they do so, Employee's entitlement shall be as the Parties mutually agree.

(b) GENERAL. Notwithstanding anything to the contrary herein, in the event of termination of Employee's employment under this Agreement, he or his Beneficiary, as the case may be, shall be entitled to receive (in addition to payments and benefits under, and except as specifically provided in, subsections (c) through (h) below, as applicable):

(i) his Salary through the date of termination;

(ii) any unused vacation from prior years according to Sabratek's vacation policy;

(iii) any deferred compensation payable under any deferred compensation plan of Sabratek;

(iv) any other compensation or benefits, including without limitation, benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each grant, award or plan; and

(v) reimbursement in accordance with Section 6 above of any business expenses incurred by Employee through the date of termination but not yet paid to him.

(c) TERMINATION DUE TO DEATH. In the event that Employee's employment is terminated due to his death, his Beneficiary shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(i) Employee's Salary, at the rate in effect immediately before such termination, payable through the end of the month in which the proceeds of his life insurance under Sabratek's group plan are paid; and

(ii) a prorated annual bonus for the Year in which his death occurs.

(d) TERMINATION DUE TO DISABILITY. In the event of Disability, Sabratek or Employee may terminate Employee's employment. If Employee's employment is terminated due to Disability, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to a prorated annual bonus for the Year in which his termination for Disability occurs.

(e) TERMINATION BY SABRATEK FOR CAUSE. Sabratek may terminate Employee's employment hereunder for Cause only upon written notice to Employee not less than 10 days prior to any intended termination date, which notice shall specify the grounds for such termination in reasonable detail. Upon receipt of such notice, Employee (and his counsel) shall have the right to present to the Chief Executive Officer his position regarding any dispute relating to the existence of such Cause. Unless rescinded by the Chief Executive Officer, termination shall be effective on the date specified in the original notice.

In the event that Employee's employment is terminated for Cause, he shall be entitled only to the compensation and benefits specified in Section 8(b).

8

9

(f) TERMINATION WITHOUT CAUSE.

(i) Termination without Cause shall mean: termination of Employee's employment by Sabratek and shall include any reason for termination other than (i) due to death, Disability or Cause, (ii) by Employee voluntarily, or (iii) by mutual agreement of Employee and Sabratek. Sabratek shall provide Employee ten days' prior written notice of termination by it without Cause.

(ii) In the event of termination by Sabratek of Employee's employment without Cause, he shall be entitled, in addition to the compensation and benefits specified in Section 8(b), to:

(A) his Salary, at the rate in effect immediately before such termination, for a period of six months following the date of termination, such salary to be paid on Sabratek's normal payroll schedule; and

(B) a prorated annual bonus for the year in which terminated, such bonus to be paid at the same time annual bonuses are regularly paid by Sabratek; and

(C) continued coverage under the health program maintained by Sabratek for a period of six months; and

(D) notwithstanding anything in this Section 8(f) to the contrary, Sabratek shall have no further obligation to make any salary or bonus payments for any period following the first date on which Employee takes any action which would fall within the definition of "Restrictive Covenant" as provided in Section 10(a) hereof, whether or not such action occurs within the Restrictive Period (as defined in Section 10(a) hereof).

(g) VOLUNTARY TERMINATION BY EMPLOYEE. Employee shall have the right, upon 30 days' prior written notice, voluntarily to terminate his employment. If he exercises this right, his employment shall cease and the Term shall terminate as of the date stated in such notice, and he shall be entitled to receive compensation and benefits as if Sabratek had terminated his employment for Cause, as provided in Section 8(e).

(h) NOTICE THAT THE EMPLOYMENT TERM SHALL NOT RENEW. In the event that either Party notifies the other that the Employment Term shall not renew pursuant to the terms of Section 2(b) above, Employee shall continue to render services to Sabratek through the end of the Term as in effect on the date of delivery of such notice, unless: (A) the non-renewal decision was made by Sabratek, in which case, the Chief Executive Officer or his designee or Employee may elect to treat the notice as a termination without Cause of Employee's employment; or (B) the non-renewal decision was made by Employee, in which case, the Chief Executive Officer or his designee may elect to treat the notice as a voluntary termination of employment by Employee.

(i) CHANGE IN CONTROL. Notwithstanding anything to the contrary in this Section 8, if, within twelve months following a Change in Control (A) Employee's employment is terminated for any reason other than Cause, death or Disability, or (B) there is a material adverse change in Employee's compensation, title or duties specified herein, he shall be entitled to the compensation and benefits provided in Sections 8(b) and 8(f)(ii), including, but not limited to, any other compensation or benefits under equity grants and awards described in Section 5 above and employee benefits under plans described in Section 7 above, that have vested through the date of termination or to which he may then be entitled in accordance with the applicable terms and conditions of each

grant, award or plan, provided that the term during which Employee is entitled to continue receiving his salary pursuant to Section 8(f)(ii)(A) hereof shall increase from six months to one year.

## 9. CONFIDENTIALITY AND LOYALTY.

### (a) GENERAL.

(i) Employee hereby acknowledges that as a result of his employment with Sabratek he has produced and had access to, and may hereafter produce and have access to, material, records, data, trade secrets, inventions and information not generally available to the public (collectively, "Confidential Information") regarding Sabratek and that any such Confidential Information is the exclusive property of Sabratek.

(ii) Accordingly, Employee hereby agrees that, during and subsequent to the Term, he shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by Sabratek, required by a law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Employee of his duties hereunder.

(b) RETURN OF DOCUMENTS. All records, files, documents and other materials or copies thereof relating to Sabratek's business that Employee prepares or uses shall be and remain the sole property of Sabratek and shall not be removed from Sabratek's premises without its written consent. Upon termination of Employee's employment with Sabratek for any reason, he shall promptly deliver to Sabratek all such items that are then in his possession or control.

11

12

(c) DUTY OF LOYALTY. Employee hereby agrees to abide by Sabratek's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of Sabratek.

(d) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 9(a), (b) or (c), Sabratek shall be entitled to relief as provided in Section 11 below.

## 10. NONCOMPETITION/NONSOLICITATION.

(a) RESTRICTIVE COVENANT. Employee hereby agrees that, except with the express prior written consent of Sabratek, for a period of six months after termination of his employment with Sabratek for any reason (the "Restrictive

Period"), he will not directly or indirectly compete with the business of Sabratek as conducted on the date of such termination, including, but not by way of limitation, by (i) directly or indirectly owning, managing, operating, controlling, financing, (ii) directly or indirectly serving as an employee, officer or director of or consultant to, or (iii) soliciting or inducing, or attempting to solicit or induce, any employee or agent of Sabratek to terminate employment with Sabratek and become employed by, any person, firm, partnership, corporation, trust or other entity that owns or operates an entity that is engaged in the same or similar business as Sabratek as conducted on the date of such termination (the "Restrictive Covenant").

If Employee violates the Restrictive Covenant and Sabratek brings legal action for injunctive or other relief, Sabratek shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to endure for the period specified in this Section 10(a), computed from the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by Employee.

12

13

(b) EXCEPTIONS. Notwithstanding anything to the contrary in Section 10(a), the Restrictive Covenant shall not:

(i) apply if Sabratek terminates Employee's employment without Cause, as provided in Section 8(f) above; or

(ii) prohibit Employee from owning directly or indirectly capital stock or similar securities which do not represent more than five percent of the outstanding capital stock of any business similar to that of Sabratek as conducted on the date of such termination.

(c) REMEDIES AND SANCTIONS. In the event that Employee is found to be in violation of Section 11(a) above, Sabratek shall be entitled to relief as provided in Section 11 below.

## 11. REMEDIES/SANCTIONS.

Employee hereby acknowledges that the restrictions contained in Sections 9 (a), (b) and (c) and 10(a) above are reasonable and necessary for the protection of the legitimate business interests of Sabratek, for which monetary damages alone may not provide an adequate remedy, that any violation of these restrictions would cause substantial injury to Sabratek and such interests, that

Sabratek would not have entered into this Agreement without receiving the additional consideration offered by Employee in binding himself to these restrictions and that such restrictions were a material inducement to Sabratek to enter into this Agreement.

In the event of any violation or threatened violation of these restrictions, Sabratek (a) shall be relieved of any further obligations under the Agreement, (b) shall be entitled to monetary damages resulting from such violation, and (c) in addition to and not in limitation of, any other rights, remedies or damages available to Sabratek under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such

13

14

violation by Employee and any and all persons directly or indirectly acting for or with him, as the case may be.

#### 12. BENEFICIARIES/REFERENCES.

Employee shall be entitled to select (and change, to the extent permitted under any applicable law) a Beneficiary or Beneficiaries to receive any compensation or benefit payable under this Agreement following his death by giving Sabratek written notice thereof. In the event of Employee's death, or of a judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed to refer, as appropriate, to his Beneficiary, estate or other legal representative.

#### 13. WITHHOLDING TAXES.

All payments to Employee or his Beneficiary under this Agreement shall be subject to withholding on account of federal, state and local taxes as required by law.

#### 14. INDEMNIFICATION AND LIABILITY INSURANCE.

Nothing herein is intended to limit Sabratek's indemnification of Employee, and Sabratek shall indemnify him to the fullest extent permitted by applicable law consistent with Sabratek's Certificate of Incorporation and By-Laws as in effect at the beginning of the Term, with respect to any action or failure to act on his part while he is an officer, director or employee of Sabratek.



Sabratek shall cause Employee to be covered at all times by directors' and officers' liability insurance on terms no less favorable than the directors' and officers' liability insurance maintained by Sabratek in effect on the date hereof in terms of coverage and amounts. Sabratek shall continue to indemnify Employee as provided above and maintain such liability insurance coverage for him after the Term for any claims that may be made against him with respect to his service as a director or officer of Sabratek.

14

15

#### 15. EFFECT OF AGREEMENT ON OTHER BENEFITS.

The existence of this Agreement shall not prohibit or restrict Employee's entitlement to participate fully in compensation, employee benefit and other plans of Sabratek in which senior executives are eligible to participate.

#### 16. ASSIGNABILITY; BINDING NATURE.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Employee) and assigns.

#### 17. REPRESENTATIONS.

The Parties respectively represent and warrant that each is fully authorized and empowered to enter into this Agreement and that the performance of its or his obligations, as the case may be, under this Agreement will not violate any agreement between such Party and any other person, firm or organization. Sabratek represents and warrants that this Agreement has been duly authorized by all necessary corporate action and is valid, binding and enforceable in accordance with its terms.

#### 18. ENTIRE AGREEMENT.

Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the Parties concerning the subject matter hereof, between Sabratek and Employee, provided that the execution of this Agreement shall not adversely affect (i) any award previously made to Employee under any compensation plan maintained by Sabratek, or (ii) any statements regarding the vesting of options

or other benefits in such prior agreements. Payments and benefits provided under this Agreement are in lieu of any payments or other benefits under any severance program or policy of Sabratek to which Employee would otherwise be entitled.

15

16

#### 19. AMENDMENT OR WAIVER.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of Sabratek. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Party to be charged with the waiver. No delay by either Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

#### 20. SEVERABILITY.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

#### 21. SURVIVAL.

The respective rights and obligations of the Parties under this Agreement shall survive any termination of Employee's employment with Sabratek.

#### 22. GOVERNING LAW/JURISDICTION.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Illinois, without reference to principles of conflict of laws.

16

17

## 23. ARBITRATION.

Any dispute or controversy other than a dispute or controversy arising under Sections 9 or 11 hereof (actions regarding which may be brought in any court (i) having situs within Cook County, Illinois and (ii) having jurisdiction over the dispute or controversy) arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Employee within thirty (30) miles from the main office of Sabratek, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid through the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

## 24. LEGAL FEES.

All reasonable expenses and legal fees paid or incurred by Employee pursuant to any bona fide dispute or question of interpretation relating to this Agreement, including all such expenses and fees, if any, incurred in contesting any termination of this Agreement by Sabratek or in seeking to obtain or enforce any right or benefit provided by this Agreement, shall be paid or reimbursed by Sabratek, provided, however, that if this Agreement is terminated for Cause or if this Agreement is terminated voluntarily by Employee other than due to a breach of this Agreement by Sabratek, Sabratek shall be obligated to pay any of Employee's expenses and legal fees arising therefrom only if Employee is successful on the merits pursuant to a legal judgment, arbitration or settlement.

17

18

## 25. NOTICES.

Any notice given to either Party shall be in writing and shall be deemed to have been given when delivered either personally, by fax, by overnight delivery service (such as Federal Express) or sent by certified or registered mail postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as the Party may subsequently give notice of:

If to Sabratek or the Board:

Sabratek Corporation  
8111 North St. Louis Avenue

Skokie, Illinois 60076  
Attention: President

FAX: (847) 647-2382

with a copy to:

Ross & Hardies  
150 North Michigan Avenue  
Chicago, Illinois 60601  
Attention: David S. Guin  
PHONE: (312) 750-3501  
FAX: (312) 750-8600

If to Employee:

Sabratek Corporation  
8111 North St. Louis Avenue  
Skokie, Illinois 60076  
Attention: Mary Beth Blue  
FAX: (847) 647-2382

and

Mary Beth Blue  
18506 Paloma Wood  
San Antonio, Texas 78259

## 26. HEADINGS.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

## 27. COUNTERPARTS.

This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have Agreement as of the date first written above.

SABRATEK CORPORATION

By: \_\_\_\_\_  
Stephen L. Holden, President

\_\_\_\_\_  
Mary Beth Blue

## SABRATEK CORPORATION

## EMPLOYMENT AGREEMENT

-----

THIS AGREEMENT is made as of February 25, 1997, between Sabratek Corporation, a Delaware corporation ("Sabratek"), and Steven J. Richard ("Executive").

Pursuant to an Asset Purchase Agreement (the "Purchase Agreement") among Sabratek, Elliot R. Mandell and Rocap, Inc., a Massachusetts corporation ("Rocap"), Sabratek will acquire the assets of Rocap and will operate the business currently operated by Rocap (the "Business") from and after the closing under the Purchase Agreement through a new subsidiary of Sabratek or as a division of Sabratek (either, the "Company").

In consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment. The Company shall employ Executive, and Executive hereby accepts employment with the Company, upon the terms and conditions set forth in this Agreement for the period beginning on the date hereof and ending as provided in paragraph 5 hereof (the "Employment Period").

2. Position and Duties.

(a) During the Employment Period, Executive shall serve as the Vice President of Operations of the Business and shall have the duties and responsibilities delegated to Executive by the Company's board of directors (the "Board") or the Company's Chief Executive Officer (the "CEO") or the Company's President (the "President").

(b) Executive shall report directly to the President (or to another senior executive of the Business designated by the President) and shall devote his best efforts and his full business time and attention (except for permitted vacation periods and reasonable periods of illness or other incapacity) to the business and affairs of the Company. Executive shall perform his duties and responsibilities to the best of his abilities in a diligent, trustworthy, businesslike and efficient manner.

3. Base Salary and Benefits.

(a) During the Employment Period, Executive's base salary shall be \$100,000 per annum or such higher rate as the CEO may designate from time to time (the

"Base Salary"), which salary shall be payable in regular installments in accordance with the Company's general payroll

2

practices and shall be subject to customary withholding. The Executive's base salary level shall be reviewed annually, and Executive shall be eligible for performance based increases on the same basis as other employees of Sabratek. In addition, during the Employment Period, Executive shall be eligible to participate in all of the Company's employee benefit programs.

(b) The Company shall reimburse Executive for all reasonable expenses incurred by him in the course of performing his duties under this Agreement which are consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company's requirements with respect to reporting and documentation of such expenses.

(c) In addition to the Base Salary, Executive may be awarded a cash or stock bonus or options to purchase Sabratek common stock following the end of each fiscal year during the Employment Period based upon Executive's performance and the Company's operating results during each year.

#### 4. Stock Options.

(a) As of the date of this Agreement, Executive is hereby granted options to acquire 20,000 shares of Sabratek's common stock (the "Options") pursuant to Sabratek's Amended and Restated 1993 Stock Option Plan (the "Option Plan"). The Options shall have a 10-year term and shall have an exercise price per share equal to the closing sales price for the Sabratek common stock on the trading day prior to the date of grant. Subject to the provisions of this paragraph 4, the Options shall vest and become exercisable by Executive as follows: (i) Options to purchase 2,000 shares shall be fully vested and exercisable at the date hereof; (ii) Options to purchase 4,500 shares shall vest and become exercisable on the first anniversary of the date hereof; (iii) Options to purchase 4,500 shares shall vest and become exercisable on the second anniversary of the date hereof; (iv) Options to purchase 4,500 shares shall vest and become exercisable on the third anniversary of the date hereof; and (v) Options to purchase 4,500 shares shall vest and become exercisable on the fourth anniversary of the date hereof.

(b) If the Employment Period is terminated by the Company for Cause (as defined below), all unvested Options will immediately be forfeited to the Company and Executive will have no further rights in respect thereof.

(c) If the Employment Period is terminated by the Company without Cause, or if the Employment Period is terminated because of the death or permanent disability or incapacity (which shall mean the inability on a permanent basis to carry out the duties and responsibilities of the position on an effective basis due to casualty, illness, injury, or other impairment of mental, physical or emotional faculties, as determined by the President or CEO exercising reasonable judgement) of Executive, the unvested Options that are scheduled to vest on the

next anniversary of the date hereof under paragraph 4(a) will immediately vest and become exercisable and all other unvested Options will immediately be forfeited to the Company and Executive will have no further rights in respect thereof.

- 2 -

3

(d) In the event of a Sabratek Change of Control (as defined below), all unvested Options will immediately vest and become exercisable.

(e) If the Employment Period is terminated by the resignation of Executive, all unvested Options will immediately be forfeited to the Company and Executive will have no further rights in respect thereof.

(f) Following termination of the Employment Period for any reason, all vested Options shall be exercisable by Executive (or his executor, administrator or other legal representative) for a period of 60 days from the date of termination.

(g) At the time of the grant of the Options, Executive shall be issued an option grant letter in the form customarily used by the Company for option grants made under the Option Plan, and the Options shall be subject to the terms and conditions of the Option Plan in addition to the terms set forth in this Agreement.

(h) For purposes of this paragraph 4, a "Sabratek Change of Control" shall be deemed to occur upon (i) the sale of all or substantially all of the assets of Sabratek, (ii) a merger or consolidation of Sabratek with another corporation, or an exchange of the securities of Sabratek for the securities of another corporation, with the result that the shareholders of Sabratek immediately before such merger, consolidation or exchange own less than a majority of the outstanding voting securities of the surviving corporation of such merger or consolidation, or of the corporation in which such shareholders own securities as a result of and following such exchange, immediately after such merger, consolidation or exchange, or (iii) the acquisition by any person or group (within the meaning of Section 13(d) under the Securities Exchange Act of 1934, as amended) of a majority of the outstanding common stock of Sabratek in one or a series of related transactions. Notwithstanding the foregoing, a change of control shall not be deemed to occur as a result of any of the foregoing transactions if the corporate existence of Sabratek is not affected by such transaction and Sabratek's chief executive officer and directors retain their positions with Sabratek (and constitute at least a majority of the board of directors) following the transaction.

## 5. Term.

(a) The Employment Period shall terminate upon the date of Executive's resignation, death or permanent disability or incapacity (which shall mean the inability on a permanent basis to carry out the duties and responsibilities of the position on an effective basis due to casualty, illness, injury, or other



impairment of mental, physical or emotional faculties, as determined by the President or CEO exercising reasonable judgement), and the Employment Period may be terminated by the Company at any time prior to such date for Cause (as defined below) or without Cause by delivery of notice to Executive of such termination.

(b) If the Employment Period is terminated by the Company without Cause, Executive shall be entitled to receive his Base Salary (i) through the second anniversary of the date of this Agreement, in the event such termination occurs prior to the first anniversary of the date hereof or (ii) for one year following such termination, in the event such termination occurs on or

- 3 -

4

after the first anniversary of the date hereof, provided that Executive shall be entitled to such continuation of his Base Salary if and only if Executive has not breached in any material respect the provisions of paragraphs 6 through 10 hereof. In the event that Executive is terminated without Cause by the Company, the company shall pay the reasonable relocation expenses of Executive to relocate his family to the Commonwealth of Massachusetts, if Executive's principal place of business is in any other state at the time of such termination. The amounts payable pursuant to this paragraph 5(b) shall be reduced by the amount of any compensation Executive receives with respect to any other employment during such Base Salary continuation period.

(c) If the Employment Period is terminated by the Company for Cause or is terminated by the Executive's resignation, death, or disability pursuant to paragraph 5(a) above, Executive shall be entitled to receive his Base Salary through the date of termination.

(d) All of Executive's rights to fringe benefits and bonuses hereunder (if any) which accrue after the termination of the Employment Period shall cease upon such termination.

(e) For purposes of this Agreement, "Cause" shall mean (i) a material breach of this Agreement by Executive, (ii) a material breach of Executive's duty of loyalty to Sabratek or any of its subsidiaries or any act of dishonesty or fraud with respect to Sabratek or any of its subsidiaries, (iii) the commission by Executive of a felony, a crime involving moral turpitude or other act or omission causing material harm to the standing and reputation of Sabratek and its subsidiaries, or (iv) Executive's continued failure to perform his duties as directed by the Board or the President or CEO as contemplated by this Agreement.

(f) The Company may offset any amounts Executive owes it or its subsidiaries against any amounts it owes Executive hereunder.

6. Confidential Information. Executive acknowledges that the information, observations and data obtained by him while employed by Sabratek and its subsidiaries (including those obtained while employed by Rocap prior to the date

of this Agreement and the acquisition of Rocap's assets by the Company) concerning the business or affairs of Sabratek (including the Business) or any subsidiary of Sabratek ("Confidential Information") are the property of Sabratek or such subsidiary. Therefore, Executive agrees that he shall not disclose to any unauthorized person or use for his own purposes any Confidential Information without the prior written consent of the President or CEO, unless and to the extent that the aforementioned matters become generally known to and available for use by the public other than as a result of Executive's acts or omissions. Executive shall deliver to Sabratek at the termination of the Employment Period, or at any other time Sabratek may request, all memoranda, notes, plans, records, reports, computer tapes, printouts and software and other documents and data (and copies thereof) relating to the Confidential Information, Work Product (as defined below) or the business of Sabratek or any subsidiary of Sabratek which he may then possess or have under his control.

7. Inventions and Patents. Executive acknowledges that all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (whether or not patentable) which relates to Sabratek's or any of its

- 4 -

5

subsidiaries' actual or anticipated business, research and development or existing or future products or services and which are conceived, developed or made by Executive while employed by Sabratek and its subsidiaries, or by Rocap ("Work Product") belong to Sabratek or such subsidiary. Executive shall promptly disclose such Work Product to the President or CEO and perform all actions reasonably requested by the President or CEO (whether during or after the Employment Period) to establish and confirm such ownership (including, without limitation, assignments, consents, powers of attorney and other instruments).

8. Non-Compete. In further consideration of the compensation to be paid to Executive hereunder, Executive acknowledges that in the course of his employment with the Sabratek or any of its subsidiaries he shall become familiar, and during his employment with Rocap he has become familiar, with the trade secrets of the Business and with other Confidential Information concerning Sabratek and its predecessors and its subsidiaries and that his services have been and shall be of special, unique and extraordinary value to Rocap and to Sabratek and its subsidiaries. Therefore, Executive agrees that, during the Employment Period and until the later of (i) the second anniversary of the date of this Agreement and (ii) the first anniversary of the expiration of the Employment Period (the "Non-Compete Period"), he shall not directly or indirectly own any interest in, manage, control, participate in, consult with, render services for, or in any manner engage in any business competing with the businesses of Sabratek or its subsidiaries, as the businesses of Sabratek and its subsidiaries exist or are in process on the date of the termination of Executive's employment, within any geographical area in which Sabratek or its subsidiaries engage or plan to engage in such businesses. Nothing herein shall prohibit Executive from (i) employment as a pharmacist in a retail pharmacy

business or in a pharmacy business maintained as part of a hospital, health maintenance organization or other similar entity providing health services to the public where such pharmacy business is only serving such entity providing health services or (ii) being a passive owner of not more than 2% of the outstanding stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation.

9. Non-Solicitation During the Employment Period and until the later of (i) the second anniversary of the date of this Agreement and (ii) the first anniversary of the expiration of the Employment Period (the "Non-Solicitation Period"), Executive shall not directly or indirectly through another entity (i) induce or attempt to induce any employee of Sabratek or any of its subsidiaries (including the Company) to leave the employ of Sabratek or such subsidiary, or in any way interfere with the relationship between Sabratek or any such subsidiary and any employee thereof, or (ii) induce or attempt to induce any customer, supplier, licensee, licensor, franchisee or other business relation of Sabratek or any such subsidiary to cease doing business with Sabratek or such subsidiary, or in any way interfere with the relationship between any such customer, supplier, licensee or business relation and Sabratek or any such subsidiary (including, without limitation, making any negative statements or communications about Sabratek or its subsidiaries).

10. Enforcement. If, at the time of enforcement of paragraph 6, 7, 8 or 9 of this Agreement, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area. Because

5

6

Executive's services are unique and because Executive has access to Confidential Information and Work Product, the parties hereto agree that money damages would not be an adequate remedy for any breach of this Agreement. Therefore, in the event a breach of threatened breach of this Agreement, Sabratek or its successors or assigns may, in addition to other rights and remedies existing in their favor, apply to any court of competent jurisdictions for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach or violation by Executive of paragraph 9 and/or 10, the Non-Compete Period and/or Non-Solicitation Period, as applicable, shall be tolled until such breach or violation has been duly cured. Executive agrees that the restrictions contained in paragraphs 9 and 10 are reasonable.

11. Executive's Representations. Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive do not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound, (ii) Executive is

not a party to or bound by any employment agreement, noncompete agreement or confidentiality agreement with any other person or entity, and (iii) upon the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms. Executive hereby acknowledges and represents that he has consulted with independent legal counsel regarding his rights and obligations under his Agreement and that he fully understands the terms and conditions contained herein.

12. Survival. Paragraphs 7 through 10 and paragraphs 12 through 20 shall survive and continue in full force in accordance with their terms notwithstanding any termination of the Employment Period.

13. Notices. Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

Notices to Executive:

Steven J. Richard  
5 Constitution Way  
Woburn, MA 01940

with a copy to:

Kenneth A. Cossingham, Esq.  
Cossingham Law Office, P.C.  
800 Turnpike Street  
Suite 305  
North Andover, MA 01845

Notices to Sabratek:

Sabratek Corporation  
5601 West Howard Street  
Niles, IL 60714  
Attn: Chief Executive Officer

- 6 -

7

with a copy to:

Kirkland & Ellis  
200 East Randolph Drive  
Chicago, IL 60601  
Attn: Alan G. Berkshire

or such other address or to the attention of such other person as the recipient party shall have specified by prior written notice in accordance with this paragraph to the sending party. Any notice under this Agreement shall be deemed to have been given when so delivered or mailed.

14. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

15. Complete Agreement. This Agreement, the Purchase Agreement, those documents expressly referred to herein and other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

16. No Strict Construction. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party.

17. Counterparts. This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

18. Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive, Sabratek and their respective heirs, successors and assigns, except that Executive may not assign his rights or delegate his obligations hereunder without the prior written consent of Sabratek.

19. Choice of Law. All issues and questions concerning the construction, validity, enforcement and interpretation of this agreement and the exhibits and schedules hereto shall be governed by, and construed in accordance with, the laws of the state of Illinois, without giving effect to any choice of law or conflict of law rules or provisions (whether of the state of Illinois or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the state of Illinois.

8

20. Amendment and Waiver. The provisions of this Agreement may be amended or waived only with the prior written consent of Sabratek and Executive, and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

\* \* \* \* \*

9

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

SABRATEK CORPORATION

By /s/ Stephen L. Holden  
-----

Its SVP and CFO  
-----

-----  
STEVEN J. RICHARD

10

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

SABRATEK CORPORATION

By  
-----

Its  
-----

/s/ Steven J. Richard

-----  
STEVEN J. RICHARD

- 10 -

## STATEMENT RE COMPUTATION OF SHARE EARNINGS

<TABLE>			
<CAPTION>			
<S>	Year Ended December 31		
	1998	1997	1996
	----	----	----
	<C>	<C>	<C>
Net income (loss)	\$4,871,614	\$7,246,457	(\$858,116)
Weighted average common shares outstanding	10,316,418	9,614,278	5,142,763
Basic income (loss) per share	\$0.47	\$0.75	(\$0.17)
Dilutive effect of options and warrants outstanding under treasury stock method	829,508	1,280,337	-
	11,145,926	10,894,615	5,142,763
Diluted income (loss) per share	\$0.44	\$0.67	(\$0.17)

&lt;/TABLE&gt;



## LIST OF SUBSIDIARIES

Sabratek Foreign Sales Corp., a corporation domiciled in the U.S. Virgin Islands.

CMS Healthcare, Inc., a corporation organized under the laws of the State of Florida.

## CONSENT OF KPMG LLP

The Board of Directors  
Sabratek Corporation:

We consent to incorporation by reference in the registration statements on Form S-3 (No.333-31891) and on Form S-8 (Nos. 333-13315, 333-31495 and 333-31503) of Sabratek Corporation of our report dated March 12, 1999, relating to the consolidated balance sheets of Sabratek Corporation as of December 31, 1998 and 1997, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of Sabratek Corporation.

/s/ KPMG LLP

Chicago, Illinois  
March 12, 1999

<TABLE> <S> <C>

<ARTICLE> 5

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-END>	DEC-31-1998
<CASH>	29,169,606
<SECURITIES>	6,058,200
<RECEIVABLES>	20,221,699
<ALLOWANCES>	835,600
<INVENTORY>	23,972,726
<CURRENT-ASSETS>	80,401,932
<PP&E>	9,785,759
<DEPRECIATION>	2,167,329
<TOTAL-ASSETS>	152,678,606
<CURRENT-LIABILITIES>	9,433,375
<BONDS>	85,000,000
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	108,680
<OTHER-SE>	58,029,377
<TOTAL-LIABILITY-AND-EQUITY>	152,678,606
<SALES>	63,565,732
<TOTAL-REVENUES>	66,909,605
<CGS>	29,965,645
<TOTAL-COSTS>	32,081,693
<OTHER-EXPENSES>	26,247,705
<LOSS-PROVISION>	332,828
<INTEREST-EXPENSE>	0
<INCOME-PRETAX>	8,358,664
<INCOME-TAX>	3,487,050
<INCOME-CONTINUING>	4,871,614
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	4,871,614
<EPS-PRIMARY>	0.47
<EPS-DILUTED>	0.44

</TABLE>