FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2005-08-09** | Period of Report: **2005-06-30**
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FILER

CARDIAC SCIENCE INC

CIK:**876188**| IRS No.: **330465681** | State of Incorp.:**DE** | Fiscal Year End: **1231**
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SIC: **3845** Electromedical & electrotherapeutic apparatus

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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

Commission file number 0-19567

CARDIAC SCIENCE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**33-0465681**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1900 Main Street, Suite 700, Irvine, CA 92614
(Address of principal executive offices)

Registrant's telephone number, including area code: (949) 797-3800

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 preceeding 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 whether the registrant is an accelerated filer (as defined in Rules 12b-2 of the Exchange Act).

Yes ☒ No ☐

The number of shares of the Common Stock of the registrant outstanding as of August 5, 2005 was 85,945,368.

CARDIAC SCIENCE, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CARDIAC SCIENCE, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

In thousands, except share data

	June 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$7,336	$13,913
Accounts receivable, net of allowance for doubtful accounts of $4,449 at June 30, 2005 and $3,611 at December 31, 2004	11,875	17,978
Inventories, net	11,208	9,680
Prepaid expenses and other current assets	2,803	2,517
Total current assets	33,222	44,088
Property and equipment, net	4,690	4,932
Goodwill	92,268	140,544
Intangibles, net	8,683	9,677
Other assets	6,156	4,093
Total assets	$145,019	$203,334
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$5,943	$8,266
Accrued expenses	6,560	6,820
Deferred revenue	1,547	1,940
Current portion of long term debt	13	16
Total current liabilities	14,063	17,042
Senior secured promissory notes	55,557	52,623
Deferred revenue	617	697
Other long term liabilities	50	57
Total liabilities	70,287	70,419
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock - $.001 par value; 160,000,000 shares authorized, 85,945,368 and 86,258,913 shares issued at June 30, 2005 and December 31, 2004, respectively; 85,945,368 and 85,981,231 shares outstanding at June 30, 2005 and December 31, 2004, respectively	86	86
Additional paid-in capital	259,950	257,211

Accumulated other comprehensive loss	(25)	(25)
Accumulated deficit	(185,279)	(124,357)
Total stockholders' equity	74,732	132,915
Total liabilities and stockholders' equity	$145,019	$203,334

The accompanying notes are an integral part of these unaudited financial statements.

CARDIAC SCIENCE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

In thousands, except share and per share data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Net revenue	$15,626	$17,509	$30,637	$33,113
Cost of revenue	7,407	7,823	13,674	14,331
Gross profit	8,219	9,686	16,963	18,782
Operating expenses:				
Sales and marketing	5,344	6,947	10,250	12,950
Research and development	1,813	1,456	3,270	3,125
General and administrative	5,730	4,317	10,928	8,483
Amortization of intangible assets	405	504	808	1,007
Goodwill impairment charge	—	—	47,269	—
Total operating expenses	13,292	13,224	72,525	25,565
Loss from operations	(5,073)	(3,538)	(55,562)	(6,783)
Interest and other expense, net	(1,965)	(1,783)	(5,318)	(3,370)
Loss before income taxes	(7,038)	(5,321)	(60,880)	(10,153)
Provision for income taxes	42	—	42	—
Net loss	$(7,080)	$(5,321)	$(60,922)	$(10,153)
Net loss per share (basic and diluted)	$(0.08)	$(0.07)	$(0.71)	$(0.13)
Weighted average number of shares used in the computation of net loss per share (basic and diluted)	85,945,368	80,674,736	85,981,864	80,603,773

The accompanying notes are an integral part of these unaudited financial statements.

CARDIAC SCIENCE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

In thousands

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Net loss	$(7,080)	$(5,321)	$(60,922)	$(10,153)
Other comprehensive income loss:				
Foreign currency translation adjustments	—	—	—	(8)
Comprehensive loss	$(7,080)	$(5,321)	$(60,922)	$(10,161)

The accompanying notes are an integral part of these unaudited financial statements

CARDIAC SCIENCE, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

In thousands

	Six Months Ended	
	June 30, 2005	**June 30, 2004**
Cash flows from operating activities:		
Net loss	$(60,922)	$(10,153)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,148	1,334
Amortization of intangible assets	1,016	1,007
Provision for doubtful accounts	995	624
Inventory obsolescence	340	—
Accrued interest and amortization of debt discount/issuance costs	3,577	3,334
Value of consideration for filing delays	1,449	—
Gain on sale of assets	—	(280)
Goodwill impairment charge	47,269	—
Changes in operating assets and liabilities:		
Accounts receivable	5,108	2,611
Inventories	(1,845)	(892)
Placement of Powerheart CRMs at customer locations	(20)	—
Prepaid expenses and other assets	(215)	(1,589)
Accounts payable and accrued expenses	(2,478)	(90)
Deferred revenue	(473)	(423)
Net cash used in operating activities	(5,051)	(4,517)
Cash flows from investing activities:		
Purchase of property and equipment	(909)	(916)
Proceeds from sale of property and equipment	—	23
Acquisition costs paid	—	(50)
Proceeds from sale of assets of subsidiary, net of costs	—	672
Purchase of intangible assets	(22)	(37)
Proceeds (payments) related to acquisitions	—	(25)
Net cash (used in) provided by investing activities	(931)	(333)
Cash flows from financing activities:		
Payments on long term obligations	(10)	(32)
Proceeds from exercise of common stock options and warrants	—	460
Cash consideration paid for filing delay	(556)	—
Costs of equity issuances	(29)	(30)
Net cash provided by financing activities	(595)	398
Effect of exchange rates on cash and cash equivalents	—	(8)
Net decrease in cash and cash equivalents	(6,577)	(4,460)
Cash and cash equivalents at beginning of period	13,913	8,871
Cash and cash equivalents at end of period	$7,336	$4,411

The accompanying notes are an integral part of these unaudited financial statements

CARDIAC SCIENCE, INC.

CONSOLIDATED CONDENSED NOTES TO FINANCIAL STATEMENTS
(Unaudited)

(In thousands, except share and per share amounts)

1. Organization and Description of the Business

Cardiac Science, Inc. (the "Company") was incorporated in May 1991 and develops, manufactures and markets portable automatic public-access defibrillators (AEDs) and provides comprehensive AED/CPR training and AED program management services. In addition, the Company also markets a unique fully-automatic in-hospital bedside defibrillator-monitor (the "Powerheart CRM" or "CRM") that continuously monitors and automatically treats hospitalized cardiac patients. The Company's core technology platform consists of its proprietary arrhythmia detection and discrimination software ("RHYTHMx®"), which is combined with its proprietary STAR® Biphasic defibrillation hardware and disposable electrode pad technology to create a complete line of automatic public-access defibrillators, (the "Powerheart AED" or "G3 AED") for use in a variety of out-of-hospital settings. The Company's Powerheart® brand products are marketed by its direct sales force and network of independent distributors in the United States and around the world.

On July 1, 2000, the Company acquired Cadent Medical Corporation, a privately-held company, for an aggregate of 4,500,000 shares of the Company's common stock.

On September 26, 2001, the Company acquired Survivalink Corporation ("Survivalink"), a privately-held company, for $10,500 in cash, $25,800 in senior secured promissory notes, and 18,150,000 shares of the Company's common stock.

On November 30, 2001, the Company acquired 94.7% of Artema Medical AB and Subsidiaries ("Artema") for 4,150,976 shares of common stock and approximately $215 in cash. During 2003, the Company acquired the remaining minority interest for $843 in cash. On September 1, 2003, the Company transferred ownership of the shares in Cardiac Science International A/S, its Danish operations and a subsidiary of Artema, from Artema to Cardiac Science, Inc. in exchange for forgiveness of intercompany debt. Then on September 21, 2003, the Company sold 100% of its shares in Artema to an outside party for $600 in cash.

On May 29, 2003, the Company acquired Lifetec Medical Limited, its U.K. distributor, for $383 in cash.

On October 21, 2003, the Company acquired substantially all of the assets and liabilities of Complient Corporation ("Complient"), a privately-held company, for 10,250,000 shares of the Company's common stock.

On February 28, 2005, the Company signed a definitive merger agreement with Quinton Cardiology Systems, Inc ("Quinton"). The transaction was approved by the boards of directors of both companies and is anticipated to close during the third quarter of 2005, subject to the approval of its respective shareholders and other customary closing conditions. The merger agreement calls for each Company shareholder to receive 0.10 of a share of common stock of the new holding company for each share of Company common stock owned prior to the transaction and each Quinton shareholder to receive approximately 0.77 of a share of common stock of the new holding company for each share of Quinton common stock owned prior to the transaction. The number of all Company and Quinton stock options and warrants outstanding at the effective time of the transaction, as well as their respective exercise prices, will be adjusted in accordance with the same exchange ratios. In connection with the transaction, the Company's senior note holders have agreed to convert the entire balance of principal and accrued interest under their senior notes (the "Senior Notes"), or approximately $61,000, as well as warrants to purchase 13,438,599 shares of the Company's common stock, into an aggregate of $20,000 in cash and 2,843,915 shares, or approximately 13 percent immediately following the transaction, of the new holding company's common stock.

2. Continued Existence

The accompanying consolidated condensed financial statements have been prepared on the basis that the Company will continue as a going concern and that the Company will recover its assets and satisfy its liabilities in the normal course of business. From inception, the Company has incurred substantial losses and negative cash flows from operations. As of June 30, 2005, the Company had cash on hand of $7,336, working capital of $19,159, long term debt of $55,575, and an accumulated deficit of $185,279.

The Company believes that its current cash balance, in combination with net cash expected to be generated from operations and its unused line of credit of $5,000, will fund ongoing operations through the end of 2005. The Company's expected net cash from operations is predicated on achieving certain revenue levels and maintaining its cost of goods, operating expenses, and DSO ratio. The expected results for 2005 assume the completion of the pending merger with Quinton in the third quarter of 2005. If the proposed merger is not consummated, or is materially delayed for any reason, the Company's expected revenues, operating expenses and net loss for 2005 may be negatively impacted. Additionally, in the event the merger is not consummated in either the third or fourth quarter of 2005, the Company would need to seek additional funding through equity or debt financings to sustain its current level of operations.

In addition, the Company's line of credit and Senior Notes require maintenance of certain financial covenants, of which the Company was in violation during 2004 and 2005. Even though the Company has obtained waivers and/or amendments for all covenant violations, if in the future, it fails to comply with these financial covenants as amended, it could be unable to use its line of credit or be in default under the Senior Notes. If the Company is in default, it may be subject to claims by the senior note holders seeking to enforce their security interest in its assets. Such claims, if they arise, may substantially restrict or even eliminate the Company's ability to utilize its assets in conducting its business, and may cause it to incur substantial legal and administrative costs.

In the event that the Company requires additional funding, it will attempt to raise the required capital through either debt or equity arrangements. The Company cannot provide any assurance that the required capital would be available on acceptable terms, if at all, or that any financing activity would not be dilutive to its current shareholders. If the Company is not able to raise additional funds, it may be required to significantly curtail its operations and this would have an adverse effect on its financial position, results of operations and cash flows and as such, there may be substantial doubt about the Company's ability to continue as a going concern.

3. Summary of Significant Accounting Policies

In the opinion of the Company's management, the accompanying consolidated condensed unaudited financial statements include all adjustments (which consist only of normal recurring adjustments) necessary for a fair statement of its financial position at June 30, 2005 and results of operations and cash flows for the periods presented. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted and should be read in conjunction with the Company's audited financial statements included in the Company's 2004 Annual Report on Form 10-K. Results of operations for the six months ended June 30, 2005 are not necessarily indicative of results for the full year.

Inventories

Inventories are valued at the lower of cost (estimated using the first-in, first-out method) or market. The Company periodically evaluates the carrying value of inventories and maintains a reserve for obsolescence to adjust the carrying value, as necessary, to the lower of cost or market. The reserve is based on its assessment of future product demand, historical experience, and technical obsolescence, as well as other factors affecting the recoverability of the asset through future sales. Inventories consist of the following as of:

	June 30, 2005	December 31, 2004
Raw materials	$ 4,461	$3,705
Work in process	203	13
Finished goods	7,964	7,146
Reserve for obsolescence	(1,420)	(1,184)
	$11,208	$9,680

Goodwill and Intangibles

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets," goodwill and other intangible assets with indefinite lives are no longer subject to amortization but are tested for impairment annually or whenever events or changes in circumstances indicate that the asset might be impaired. The Company operates in one operating segment and has one reporting unit; therefore, goodwill is tested for impairment at the consolidated level

against the fair value of the Company. Per SFAS No. 142, the fair value of a reporting unit refers to the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis on the last day of the year for the measurement, if available. The Company assesses potential impairment on an annual basis on the last day of the year and compares its market capitalization to its carrying amount, including goodwill. A significant decrease in its stock price could indicate a material impairment of goodwill which, after further analysis, could result in a material charge to operations. If goodwill is considered impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the goodwill exceeds the implied fair value of that goodwill. Inherent in the Company's fair value determinations are certain judgments and estimates, including projections of future cash flows, the discount rate reflecting the risk inherent in future cash flows, the interpretation of current economic indicators and market valuations, and strategic plans with regard to operations. A change in these underlying assumptions would cause a change in the results of the tests, which could cause the fair value of the reporting unit to be less than its respective carrying amount. In addition, to the extent that there are significant changes in market conditions or overall economic conditions, or strategic plans change, it is possible that future goodwill impairments could result, which could have a material impact on the financial position and results of operations.

During the quarter ended March 31, 2005, the Company's stock price declined significantly resulting in its market capitalization falling below the carrying value of equity. Therefore, the Company performed an impairment test and obtained third-party valuations to assist with this analysis. The fair value estimates used in the initial impairment test, which were computed primarily based on the present value of future cash flows, indicated that the carrying amount exceeded the fair value and led the Company to conclude that goodwill was impaired. The implied fair value of goodwill was then determined through the allocation of the fair value to the underlying assets and liabilities. During the quarter ended March 31, 2005, a non-cash goodwill impairment charge of $47,269 was recorded to adjust the carrying value of the Company's goodwill to its implied fair value. At June 30, 2005, the market capitalization of the Company exceeded its carrying value.

Other intangible assets with finite lives continue to be subject to amortization, and any impairment is determined in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets. Estimated intangible asset amortization expense for the years ending December 31, 2005, 2006, 2007, 2008, 2009, and thereafter is $2,029, $1,981, $1,744, $1,696, $1,191, and $1,036, respectively.

Goodwill and other intangible assets consist of the following as of:

	June 30, 2005			December 31, 2004		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Goodwill	$92,268	$—	$92,268	$140,544	$—	$140,544
Intangible assets subject to amortization:						
Patents and patent applications	10,487	(5,071)	5,416	10,465	(4,505)	5,960
Customer base	4,082	(1,624)	2,458	4,082	(1,381)	2,701
Covenants not to compete	726	(403)	323	726	(282)	444
URL website address	656	(227)	429	656	(162)	494
Trade name	378	(378)	—	378	(378)	—
Purchased software	128	(71)	57	128	(50)	78
	$16,457	$(7,774)	$8,683	$16,435	$(6,758)	$9,677

The decrease in goodwill during the six months ended June 30, 2005 was as follows:

Goodwill at December 31, 2004	$140,544
Refund of Complient purchase price shares in escrow	(902)
Goodwill impairment charge	(47,269)
Other	(105)
Goodwill at June 30, 2005	$92,268

Product Warranty

The Company's products are generally under warranty against defects in material and workmanship for a period of one to seven years. Warranty costs are estimated at the time of sale based on historical experience. Estimated warranty expenses are recorded as an accrued liability, with a corresponding provision to cost of sales.

Changes in the product warranty accrual for the six months ended June 30 were as follows:

	2005	2004
Warranty accrual, Beginning of period	$617	$836
Change in liability for warranties issued during the period	474	1,372
Warranty expenditures	(632)	(705)
Warranty accrual, End of period	$459	$1,503

During the quarter ended June 30, 2005, the Company completed the recall/corrective actions that were initiated in 2004 and submitted final notification to the FDA requesting formal close out of these actions.

The total cost of these recall actions is estimated at approximately $1,580. In 2004, the Company received from its suppliers of the faulty components credits against amounts due to these suppliers totaling $1,240, which were recorded to accrued expenses to establish a warranty accrual for these recall matters. During the quarter ended June 30, 2005, the Company recorded an additional $340 to this reserve for actual and remaining costs to close out the recall actions. Through June 30, 2005, actual recall related costs incurred totaling approximately $1,530 have been charged against this reserve. At this time, the Company believes the remaining costs related to closing out the recall actions will be inconsequential and covered by the remaining reserve.

The decrease in warranty reserve requirements in 2005 compared with 2004, exclusive of the recall activities discussed above, results primarily from AED battery design changes in 2003 and early 2004 which extended the life of the battery and resulted in a significant reduction in no cost battery replacements, and therefore, a reduction in the overall warranty reserve necessary.

Stock Based Compensation

On December 31, 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148 "Accounting for Stock-Based Compensation—Transition and Disclosure," which amends SFAS No. 123 "Accounting for Stock-Based Compensation." SFAS No. 148 allows for three methods of transition for those companies that adopt SFAS No. 123's provisions for fair value recognition. SFAS No. 148's transition guidance and provisions for annual and interim disclosures are effective for fiscal periods ending after December 15, 2002. The Company has not adopted fair value accounting for employee stock options under SFAS No. 123 and SFAS No. 148.

The Company has adopted the disclosure-only provisions of SFAS No. 123. SFAS No. 123 defines a fair value based method of accounting for an employee stock option. Fair value of the stock option is determined considering factors such as the exercise price, the expected life of the option, the current price of the underlying stock, expected dividends on the stock, and the risk-free interest rate for the expected term of the option. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period. Pro forma disclosures are required for entities that elect to continue to measure compensation cost under the intrinsic method provided by Accounting Principles Board Opinion ("APB") No. 25.

Additionally, in accordance with SFAS No. 123 and Emerging Issues Task Force ("EITF") No. 96-18 "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services," the Company measures stock-based non-employee compensation at fair value.

Under SFAS No. 123, stock-based compensation expense related to stock options granted to consultants is recognized as the stock options are earned. The fair value of the stock options granted is calculated at each reporting date using the Black-Scholes option pricing model. As a result, the stock-based compensation expense will fluctuate as the fair market value of the Company's stock fluctuates.

Pro forma Effect of Stock-Based Compensation

In calculating pro forma information as required by SFAS No. 123, the fair value was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions for the options of the Company's common stock granted during the quarters ended June 30:

	2005		2004	
Risk-free rate	4.00	%	2.47	%
Dividend yield	0.0	%	0.0	%
Volatility	75.1	%	63.0	%
Expected life of option	4 years		4 years	

Had compensation costs been determined based upon the fair value at the grant date, consistent with the methodology prescribed under SFAS No. 123, the Company's total stock-based compensation cost, pro forma net loss, and pro forma net loss per share, basic and diluted, would have been as follows:

	Three Months Ended	Six Months Ended

	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Net loss, as reported	$(7,080)	$(5,321)	$(60,922)	$(10,153)
Deduct: Compensation expense determined under fair value based method	(720)	(834)	(1,536)	(1,842)
Pro forma net loss	$(7,800)	$(6,155)	$(62,458)	$(11,995)
Net loss per share, as reported (basic and diluted)	$(0.08)	$(0.07)	$(0.71)	$(0.13)
Pro forma net loss per share (basic and diluted)	$(0.09)	$(0.08)	$(0.73)	$(0.15)

Recent Pronouncements

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an Amendment of ARB No. 43, Chapter 4, 'Inventory Pricing,'" to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This statement requires those items be recognized as current-period charges. The provisions of this statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect adoption of this statement to have a material impact on its financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment" or SFAS No. 123R. SFAS No. 123R revises SFAS No. 123 "Accounting for Stock-Based Compensation" and supersedes APB No. 25 "Accounting for Stock Issued to Employees" and related interpretations and SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure." SFAS No. 123R requires compensation cost relating to all share-based payments to employees to be recognized in the financial statements based on their fair values. In April 2005, the Securities and Exchange Commission ("SEC") delayed the effective date of SFAS No. 123R to annual, rather than interim, reporting periods beginning after June 15, 2005. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. The Company is evaluating the requirements of SFAS No. 123R and expects that the adoption will have a material impact on the Company's consolidated financial position or results of operation. The Company has not determined the method of adoption and it has not determined whether the adoption will result in amounts recognized in the income statement that are similar to the current pro forma disclosures under SFAS No. 123.

In December 2004, the FASB issued SFAS No. 153 "Exchanges of Non-monetary Assets -- an amendment of Accounting Principles Board ("APB") Opinion No. 29 'Accounting for Non-monetary Transactions.'" The guidance in APB No. 29 is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are applicable for non-monetary asset exchanges occurring in fiscal years beginning after June 15, 2005. The Company does not expect adoption of this statement to have a material impact on its financial statements.

In December 2004, the FASB issued FSP No. 109-2 "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP No. 109-2"). FSP No. 109-2 provides enterprises more time (beyond the financial-reporting period during which the American Jobs Creation Act took effect) to evaluate the impact on the enterprise's plan for reinvestment or repatriation of certain foreign earnings for purposes of applying SFAS No. 109. The FSP, issued on December 21, 2004, went into effect upon being issued. The Company is not yet in a position to decide on whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. The Company expects to conclude its analysis of this repatriation incentive during 2005.

In March 2005, the SEC released Staff Accounting Bulletin ("SAB") No. 107 "Share-Based Payment" which provides interpretive guidance related to the interaction between SFAS No. 123R and certain SEC rules and regulations, as well as provides the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. SAB No. 107 does not change the accounting required by SFAS No. 123R.

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB No. 3." SFAS No. 154 requires that all voluntary changes in accounting principles are retrospectively applied to prior financial statements as if that principle had always been used, unless it is impracticable to do so. When it is impracticable to calculate the effects on all prior periods, SFAS No. 154 requires that the new principle be applied to the earliest period practicable. SFAS No. 154 also provides that a change in method of depreciating or amortizing a long-lived non-financial

asset be accounted for as a change in estimate effected by a change in accounting principle, and also provides that correction of errors in previously issued financial statements should be termed a "restatement." SFAS No. 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005. The Company does not expect adoption of this statement to have a material impact on its financial statements.

4. Segment reporting

The Company follows the provisions of SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information*."*SFAS No. 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for related disclosures about products and services, geographic areas and major customers. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses whose separate financial information is available and is evaluated regularly by the Company's chief operating decision makers, or decision making group, to perform resource allocations and performance assessments.

The Company's chief operating decision makers are the Chief Executive Officer and other senior executive officers of the Company. Based on evaluation of the Company's financial information, management believes that the Company operates in one reportable segment with its various product lines that service the external defibrillation and cardiac monitoring industry. The product lines include AEDs and related training, services, and accessories; Powerhearts, electrodes and related accessories; and emergency defibrillators, monitors, training products and related accessories.

The Company's chief operating decision makers evaluate revenue performance of product lines, both domestically and internationally, however, operating, strategic and resource allocation decisions are not based on product line performance, but rather on the Company's overall performance in its operating segment.

The following is a breakdown of net revenue by product line:

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
AEDs and related accessories	$13,603	$13,835	$26,475	$25,887
AED/CPR training and program management services	1,610	2,043	3,348	3,782
Total AED related revenue	15,213	15,878	29,823	29,669
Powerheart CRMs, electrodes and accessories	333	254	633	587
Patient monitors, training products and accessories	80	1,377	181	2,857
	$15,626	$17,509	$30,637	$33,113

The following is a breakdown of net sales by geographic location:

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
United States	$10,796	$12,494	$20,287	$23,705
Foreign	4,830	5,015	10,350	9,408
	$15,626	$17,509	$30,637	$33,113

The following is a breakdown of the Company's long-lived assets by geographic location as of:

	June 30, 2005	December 31, 2004
United States	$4,575	$4,773
Foreign	115	159
	$4,690	$4,932

5. Line of Credit

In February 2004, the Company secured a $5,000 line of credit with Silicon Valley Bank. The line of credit may be used to provide additional working capital, as needed, to fund the Company's continued growth. This 24-month facility is collateralized by accounts receivable, inventory and cash and cash equivalents, has an interest rate of the bank's prime rate plus .75% (with a floor of 5%) payable monthly, and requires the Company to maintain certain financial covenants. In February 2005, the Company obtained a waiver from the bank for the quarter and year ended December 31, 2004 for non-compliance with certain financial covenants required by the line of credit agreement and which also modified one of the financial covenants for 2005. In May 2005, the Company obtained a waiver and amendment from the bank to exclude the first quarter goodwill impairment charge from the

EBITDA calculation for 2005. As of June 30, 2005, the Company was not in compliance with the cumulative EBITDA covenant, as amended. However, in August 2005, the Company obtained a waiver of such non-compliance from the bank for the quarter ended June 30, 2005. There was no outstanding balance on the line at June 30, 2005 and 2004, however, there were letters of credit totaling $157 at June 30, 2005 issued as collateral for performance bonds that reduce the available balance on the line of credit.

6. Notes Payable

In May 2002, the Company entered into a Senior Note and Warrant Purchase Agreement (the "Agreement") with investors, pursuant to which the investors loaned the Company $50,000. In March 2004, the Company amended the Agreement in order to ease certain financial covenants into 2005 to reflect the Company's actual and expected financial results. In exchange for these modifications, the Company issued the senior note holders 500,000 additional warrants to purchase shares of common stock at $3.95 per share. The warrants were valued at $1,301 using a Black-Scholes model. The significant assumptions used in the model were: stock price of $3.98; risk free rate of 3.2%; volatility of 65%; dividend yield of 0%; and contractual term of seven years. The value of the warrants is being amortized over the remaining term of the Senior Notes using the effective interest method.

Under the antidilution provisions of the Agreement, which were triggered by the September 2003 and July 2004 private placements and the July 2003 warrant issuance to GE Healthcare, an additional 205,451 warrants were issuable to the senior note holders at exercise prices ranging from $2.97 to $3.88. In addition, the exercise prices of the original warrants issued were also reduced to: (i) $2.97 for the 10,000,000 warrants that had an original exercise price of $3.00, (ii) $3.88 for the 3,000,000 warrants that had an original exercise price of $4.00, and (iii) $3.86 for the 500,000 warrants that had an original exercise price of $3.95.

In January 2005, the Company entered into an amendment and limited waiver (the "Amendment") to the Agreement with the senior note holders. Pursuant to the terms of the Amendment, the Company and the senior note holders agreed to: (i) extend the maturity date of the $50,000 in aggregate principal amount of Senior Notes issued under the Agreement by twelve months to May 29, 2008; (ii) defer all cash interest payments until maturity; and (iii) modify certain financial covenants regarding minimum EBITDA, minimum debt to capitalization and maximum capital expenditures, and delete certain other financial covenants for 2005 through maturity. Additionally, the senior note holders waived certain covenant violations, including all financial covenant violations for the quarter and year ended December 31, 2004. In exchange for the foregoing amendments and waiver contained in the Amendment, the Company and the senior note holders agreed to reduce the aggregate number of warrants to purchase shares of common stock issued in connection with the Agreement to 13,438,599 and reduce the exercise price of those warrants to $2.00 per share, down from the original weighted average price of approximately $3.21 per share. The fair value of the change in the exercise price of the warrants was valued at $2,777 using a Black-Scholes model. The significant assumptions used in the model were: stock price of $1.70; risk free rate of 3.5%; volatility of 75%; dividend yield of 0%; and contractual term of approximately 4.3 years. The value of this change to the warrant exercise price is being amortized over the remaining term of the Senior Notes using the effective interest method.

In May 2005, the Company obtained an amendment from the senior note holders to exclude the first quarter goodwill impairment charge from the financial covenant calculations for 2005. .At March 31, 2005 and June 30, 2005, the Company was in compliance with all covenants required by the Agreement, as amended.

7. Common Stock

In July 2004, the Company completed a private placement of common stock and warrants raising $12,370 in gross proceeds. The holders of the Senior Notes were the lead investors. In connection with the private placement, the Company issued 5,219,409 shares of its common stock at a price of $2.37 per share and five-year warrants to purchase 2,087,763 additional shares of its common stock at an exercise price of $2.84 per share. Proceeds of the offering are providing additional working capital and are funding product development initiatives.

In January 2005, as consideration for delays in filing a contractually required registration statement in connection with the July 2004 financing, the Company agreed with the investors to: (i) make a cash payment of $556, (ii) issue an additional aggregate of 476,637 shares of common stock, valued at $810 or $1.70 per share which was the closing market price the day before the agreement was signed, and (iii) reduce the exercise price on the investors' warrants to $2.50 per share. The fair value of the change in the exercise price of the warrants was valued at $83 using a Black-Scholes model. The significant assumptions used in the model were: stock price of $1.70; risk free rate of 3.75%; volatility of 75%; dividend yield of 0%; and contractual term of approximately 6.5 years. The total value of consideration given to these investors of $1,449 was recorded to other non-operating expense in the quarter ended March 31, 2005.

8. Litigation and Other Contingencies

In February 2003, the Company filed a patent infringement action against Philips Medical Systems North America, Inc., Philips Electronics North America Corporation and Koninklijke Philips Electronics N.V. ("Philips") in the United States District Court for the District of Minnesota. The suit alleges that Philips' automated external defibrillators sold under the names "HeartStart OnSite Defibrillator,""HeartStart,""HeartStart FR2," and the "HeartStart Home Defibrillator," infringe at least ten of the Company's United States patents. In the same action, Philips counterclaimed for infringement of certain of its patents and

the Company has sought a declaration from the Court that the Company's products do not infringe such patents. Many of the Philips defibrillators' are promoted by Philips as including, among other things, pre-connected disposable defibrillation electrodes and daily self-testing of electrodes and battery, features that the suit alleges are key competitive advantages of the Company's Powerheart and Survivalink AEDs and are covered under the Company's patents. At this stage, the Company is unable to predict the outcome of this litigation. The Company has not established an accrual for this matter because a loss is not determined to be probable.

On April 30, 2003, the Company filed a Complaint against Defibtech, LLC for patent infringement in the United States District Court for the District of Minnesota. The Complaint alleged that Defibtech's Sentry and Reviver AEDs infringe the Company's patented disposable electrode pre-connect technology as well as other patents. Defibtech answered the Complaint and asserted counterclaims alleging that the Company has engaged in activities that constitute tortious interference with present and prospective contractual relations, common law business disparagement and statutory business disparagement. The Company responded to the counterclaims with a complete and general denial of the allegations. On August 8, 2005, the Company executed a settlement agreement with Defibtech, LLC. The Company's allegations of infringement by Defibtech of United States Patent No.'s 5,579,919, 5,700,281 and 6,038,473 and all of Defibtech's assorted counterclaims have been fully resolved. Other terms and conditions of the settlement remain confidential. As a condition of settlement, the Company will receive a cash payment in the amount of $925.

On March 19, 2004, William S. Parker filed suit against the Company for patent infringement in the United States District Court for the Eastern Division of Michigan. The Parker patent generally covers the use of a synthesized voice to instruct a person to perform certain tasks. The Complaint alleges that certain of the Company's AEDs infringe the patent. The patent is now expired. The Company has filed an Answer to the Complaint stating the patent is not infringed and is otherwise invalid and unenforceable. The patent has been submitted before the United States Patent and Trademark Office for reexamination. On October 25, 2004, the District Court issued an order staying the litigation pending resolution of the reexamination. At this stage of the litigation, the Company is unable to predict the outcome of this litigation. The Company has not established an accrual for this matter because a loss is not determined to be probable.

In March 2005, six complaints were filed in the Chancery Court of Delaware concerning the Company's merger agreement with Quinton and the transaction contemplated thereby. These six actions were later consolidated into what is referred to as the consolidated action. On May 17, 2005, an amended complaint was filed in the consolidated action. The six original complains were:

- *Deborah Silver v. Cardiac Science, Inc., et al.*, Case No. 1138-N;
- *Lisa A. Weber v. Cardiac Science, Inc.*, et al. Case No. 1140-N;
- *Suan Investments, Inc. v. Raymond W. Cohen*, et al., Case No. 1148-N;
- *David Shaev, et al. v. Cardiac Science, Inc.*, et al., Case No. 1153-N;
- *Irvin M. Chase, et al., v. Cardiac Science, Inc.*, et al., Case No. 1159-N; and
- *James Stellato v. Cardiac Science, Inc.*, et al., Case No. 1162-N.

In March 2005, the following complaints, which are referred to as the California actions, were filed in the Superior Court of Orange County, California concerning such merger agreement and transaction:

- *Albert Rosenfeld v. Cardiac Science, Inc.*, et al. Case No. 05CC00057; and
- *Jerrold Schaffer v. Cardiac Science, Inc.*, et al., Case No. 05CC00059.

On April 1, 2005, a complaint was filed in the Chancery Court of Delaware, *Oppenheim Pramerica Asset Management v. Cardiac Science, Inc. et al.*, Case No. 1222-N, which is referred to as the Oppenheim action. The Oppenheim action has not been consolidated with the consolidated action. On May 10, 2005, an amended complaint was filed by the plaintiffs in the Oppenheim action.

Generally, the complaints allege that the Company's board of directors breached its fiduciary obligations with respect to the proposed merger transaction with Quinton because the board of directors did not negotiate sufficient compensation for the Company's shareholders and because the board of directors engaged in self-dealing in connection with the Company's senior note holders. The amended complaints filed in Delaware also allege that the preliminary joint proxy statement/prospectus filed with the SEC in connection with the merger transaction did not adequately disclose material information about the transaction. The complaints seek, among other things, injunctive relief enjoining the transaction, recessionary damages if the transaction is completed and an order that the Company's board of directors hold an auction to obtain the best value for the Company's shareholders.

In June 2005, pursuant to an agreement of the parties to these actions, plaintiffs' counsel withdrew their motion for preliminary injunction and, on June 24, 2005, counsel for the parties in the consolidated action and the Oppenheim action executed a memorandum of understanding. As a result, plaintiffs' counsel agreed to dismiss all disclosure related claims with prejudice and to release all parties associated with the transaction in connection with such claims in exchange for the Company's agreement to include certain additional disclosures in the joint proxy statement/prospectus. Plaintiffs' counsel in the consolidated action also agreed to dismiss the remainder of their complaint without prejudice. Plaintiffs in the Delaware actions intend to apply to the Chancery Court of Delaware for attorneys' fees. The agreement with plaintiffs' counsel in the Delaware actions is subject to final approval by the Chancery Court of Delaware. The Company expects that certain of the costs and fees associated with these claims will be eligible for reimbursement under the Company's insurance policies.

While the Oppenheim action (other than the disclosure claims) and the California actions have not been dismissed, currently no motion to preliminarily enjoin the transaction is pending and the Company believes that no pending action is likely to prevent completion of the transaction.

Plaintiffs in the consolidated, California or Oppenheim actions may seek other remedies for their purported claims, including damages. The Company will vigorously contest any such claim for damages or other remedies.

In the ordinary course of business, various lawsuits and claims are filed against the Company. While the outcome of these matters is currently not determinable, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's operations or financial position.

9. Subsequent Events

On July 29, 2005, the SEC declared effective CSQ Holding Company's registration statement on Form S-4 related to the Company's proposed merger with Quinton. CSQ Holding Company is a newly-formed corporation that has been established to facilitate the merger of Quinton and Cardiac Science. A special meeting of shareholders to vote on the proposed merger is scheduled for August 31, 2005. If approved by respective shareholders of the Company and Quinton, the merger is anticipated to be consummated immediately after the special meeting.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(In thousands, except share and per share data)

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report.

A Warning About Forward-Looking Information and the Safe Harbor Under the Securities Litigation Reform Act of 1995

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we intend that such forward looking statements be subject to the safe harbors created thereby. In some cases, you can identify forward-looking statements by words like "may," "will," "should," "could," "believes," "intends," "expects," "anticipates," "plans," "estimates," "predicts," "potential," "continue" and similar expressions. These forward-looking statements relate to, among other things, (i) future expenditures and results, (ii) business strategies, and (iii) the need for, and availability of, additional financing.

The forward-looking statements included herein are based on current expectations, which involve a number of risks and uncertainties and assumptions regarding our business and technology. These assumptions involve judgments with respect to, among other things, future economic and competitive conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in forward-looking statements will be realized and actual results may differ materially. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events. Readers should carefully review the risk factors described in the documents that we file from time to time with the Securities and Exchange Commission, including Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K and subsequent current reports on Form 8-K.

Results of Operations

Quarter Ended June 30, 2005 Compared to the Quarter Ended June 30, 2004

Revenue

The following is a summary of net revenue by product line for the quarters ended June 30:

	2005			2004			Change		
AEDs and related accessories	$13,603	87.1	%	$13,835	79.0	%	$(232)	(1.7)	)%
AED/CPR training and program management services	1,610	10.3	%	2,043	11.7	%	(433)	(21.2)	)%
AED related revenue	15,213	97.4	%	15,878	90.7	%	(665)	(4.2)	)%
Powerheart CRMs, electrodes and accessories	333	2.1	%	254	1.4	%	79	31.1	%

Patient monitors, training products and accessories	80	0.5	%	1,377	7.9	%	(1,297)	(94.2)%
Total net revenue	$15,626	100.0	%	$17,509	100.0	%	$(1,883)	(10.8)%

Net revenue for the quarter ended June 30, 2005 decreased $1,883 or 10.8% compared to the quarter ended June 30, 2004. The decrease in net revenue was primarily the result of exiting the CPR Prompt and patient monitoring product lines in the second half of 2004 which accounted for $1,302 of revenue in the second quarter of 2004. Revenue from the sale of AEDs and related services decreased $665 or 4.2% quarter over quarter. The decrease in AED related revenue was primarily due to lower AED training and program management services revenue. Sales of Powerheart CRMs were $154 for the quarter ended June 30, 2005 compared to $96 for the same quarter in 2004. Sales of our Powerheart proprietary disposable defibrillation electrodes used with the first generation Powerheart and the Powerheart CRM were $179 for the quarter ended June 30, 2005 compared to $158 for the same quarter in 2004.

Gross Margin

Total cost of revenue for the quarter ended June 30, 2005 was $7,407 compared to $7,823 for the same quarter in 2004. Gross margin as a percentage of revenue was 52.6% for the quarter ended June 30, 2005, compared to 55.3% for the same quarter in 2004. The decrease in gross margin was primarily related to costs of $340 during in the quarter ended June 30, 2005 associated with the completion of product recalls that were initiated in 2004. These costs reduced gross margin for the quarter ended June 30, 2005 by 2.1 percentage points. Cost of service revenue was $910 for the quarter ended June 30, 2005 with a gross margin of 43.5% compared to $1,481 with a gross margin of 27.5% for the same quarter in 2004. The increase in service revenue gross margin for the second quarter of 2005 compared to the second quarter of 2004 was the result of costs associated with a deadline to fulfill certain installation services and AED training for New York City Schools during the quarter ended June 30, 2004 which resulted in lower margins in service revenue for that period.

During the quarters ended June 30, 2005 and 2004, sales of first generation Powerhearts or CRMs previously written off in 2003 totaled $6 and $61, respectively, and had a slight favorable impact to the margin for the respective periods. The majority of the inventory written off in 2003 is still on hand. We will continue to try to sell some of these units internationally, but it is still uncertain as to how many units we will be able to sell and at what price. Eventually we will scrap the units or use them for spare parts.

Operating Expenses

The following is a summary of operating expenses as a percentage of net revenue for the quarters ended June 30:

	2005		2004		Change	
Sales and marketing	$5,344	34.2 %	$6,947	39.7 %	$(1,603)	(23.1)%
Research and development	1,813	11.6	1,456	8.3	357	24.5
General and administrative	4,208	26.9	4,317	24.6	(109)	(2.5)
Merger and related shareholder litigation	1,522	9.8	—	—	1,522	n/a
Amortization	405	2.6	504	2.9	(99)	(19.6)
Total operating expenses	$13,292	85.1 %	$13,224	75.5 %	$68	0.5 %

Sales and marketing expenses decreased $1,603 or 23.1% for the quarter ended June 30, 2005 compared to the same quarter in 2004. Sales and marketing expenses as a percentage of revenue were 34.2% for the quarter ended June 30, 2005 down from 39.7% for the same period in 2004. The decrease is primarily attributable to: (i) lower direct marketing activities in the U.S. ($623), (ii) reduced sales expenses related to our AED training services ($401), (iii) a reduction in U.S. selling costs, primarily in the indirect sales channel reflecting our shift from smaller, local dealers to larger national distribution partners ($230), and (iv) lower international selling costs ($145).

Research and development expenses increased by $357 or 24.5% for the quarter ended June 30, 2005 compared to the same quarter in 2004. In the quarter ended June 30, 2005, research and development expenses were 11.6% of net revenue, up from 8.3% of net revenue in the same quarter in 2004. The increase is primarily due to higher project development costs for the traditional in-hospital defibrillator product for GE Healthcare which is expected to be released in the third quarter of 2005 ($355).

General and administrative expenses decreased $109 or 2.5% during the quarter ended June 30, 2005 compared with the same quarter in 2004. As a percentage of revenue, general and administrative expenses increased to 26.9% in the quarter ended June 30, 2005 from 24.6% in the same quarter in 2004. The absolute dollar value decrease was primarily due to: (i) a reduction in costs related to the Complient business, primarily headcount and facilities ($344), (ii) a reduction of headcount and related expenses from consolidating our international operations in the second half of 2004 ($208), and (iii) a decrease in commercial insurance resulting from a 2004 premium refund ($185). This decrease is primarily offset by: (i) an increase in bad debt expense primarily related to the potential uncollectibility of one foreign account ($368), (ii) settlement of certain litigation ($105), and (iii) increased regulatory and quality assurance activities ($138).

During the quarter ended June 30, 2005, operating expenses included $1,522 of new expenses related to the proposed merger transaction with Quinton ($1,128) and related shareholder litigation ($394). These expenses were primarily comprised of legal, accounting, and consulting fees.

Amortization of intangible assets included in operating expenses was $405 for the quarter ended June 30, 2005, a decrease of $99 or 19.6% from the $504 for the same quarter in 2004.

Interest and Other Expense, Net

Net interest and other expense increased by $182 or 10.2 % to $1,965 for the quarter ended June 30, 2005 compared to $1,783 for the same quarter in 2004. This increase was primarily due to an increase of interest expense and amortization of related warrant expense and debt issuance costs related to the Senior Notes, including the impact of the warrant exercise price modification in January 2005 ($64) and higher realized and unrealized losses of foreign currency activity primarily related to the large UK government sale in pounds ($209), partially offset by higher interest and other non-operating income ($97). Total interest expense was $1,811 for the quarter ended June 30, 2005 compared to $1,741 for the same quarter in 2004.

Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004

Revenue

The following is a summary of net revenue by product line for the six months ended June 30:

	2005			2004			Change		
AEDs and related accessories	$26,475	86.4	%	$25,887	78.2	%	$588	2.3	%
AED/CPR training and program management services	3,348	10.9	%	3,782	11.4	%	(434)	(11.5)	%
AED related revenue	29,823	97.3	%	29,669	89.6	%	154	0.5	%
Powerheart CRMs, electrodes and accessories	633	2.1	%	587	1.8	%	46	7.8	%
Patient monitors, training products and accessories	181	0.6	%	2,857	8.6	%	(2,676)	(93.7)	%
Total net revenue	$30,637	100.0	%	$33,113	100.0	%	$(2,476)	(7.5)	%

Net revenue for the six months ended June 30, 2005 decreased $2,476 or 7.5% compared to the six months ended June 30, 2004. This decrease was primarily the result of exiting the CPR Prompt and patient monitoring product lines in the second half of 2004 which accounted for $2,691 of revenue in the six months ended June 30, 2004. Sales of AEDs and related services for the six months ended June 30, 2005 were slightly increased at $29,823 compared to $29,669 for the same period in 2004. Sales of Powerheart CRMs were $283 for the six months ended June 30, 2005 compared to $155 for the same period in 2004. Sales of our Powerheart proprietary disposable defibrillation electrodes used with the first generation Powerheart and the Powerheart CRM were $350 for the six months ended June 30, 2005 compared to $432 for the same period in 2004.

Gross Margin

Total cost of revenue for the six months ended June 30, 2005 was $13,674 compared to $14,331 for the six months ended June 30, 2004. Gross margins as a percentage of revenue were 55.4 % for the six months ended June 30, 2005 compared to 56.7% for the six months ended June 30, 2004. The decrease in gross margin was primarily related to costs of $340 during the quarter ended June 30, 2005 associated with the completion of product recalls that were initiated in 2004. These costs reduced gross margin for the six months ended June 30, 2005 by 1.1 percentage points. Cost of service revenue was $1,758 for the six months ended June 30, 2005 with a gross margin of 47.5% compared to $2,360 with a gross margin of 37.6% for the same period in 2004. The increase in service revenue gross margin for the six months ended June 30, 2005 compared to the same period of 2004 was the result of costs associated with a deadline to fulfill certain installation services and AED training for New York City Schools during the quarter ended June 30, 2004 which resulted in lower margins in service revenue for that period.

During the six months ended June 30, 2005 and 2004, sales of first generation Powerhearts or CRMs previously written off in 2003 totaled $6 and $61, respectively, and had a slight favorable impact to the margin for the respective periods. The majority of the inventory written off in 2003 is still on hand. We will continue to try to sell some of these units internationally, but it is still uncertain as to how many units we will be able to sell and at what price. Eventually we will scrap the units or use them for spare parts.

Operating Expenses

The following is a summary of operating expenses as a percentage of net revenue for the six months ended June 30:

	2005		2004		Change	
Sales and marketing	$10,250	33.5 %	$12,950	39.1 %	$(2,700)	(20.8)%
Research and development	3,270	10.7	3,125	9.4	145	4.6
General and administrative	8,776	28.6	8,483	25.6	293	3.5
Merger and related shareholder litigation	2,152	7.0	—	—	2,152	n/a
Amortization	808	2.6	1,007	3.1	(199)	(19.8)
Goodwill impairment	47,269	154.3	—	—	47,269	n/a
Total operating expenses	$72,525	236.7 %	$25,565	77.2 %	46,960	183.7 %

Sales and marketing expenses decreased $2,700 or 20.8% for the six months ended June 30, 2005 compared to the same period in 2004. Sales and marketing expenses as a percentage of revenue were 33.5% for the six months ended June 30, 2005 down from 39.1% for the same period in 2004. The decrease is primarily attributable to: (i) a reduction in U.S. selling costs, primarily in the indirect sales channel reflecting our shift from smaller, local dealers to larger national distribution partners ($362), (ii) reduced sales expenses related to our AED training services ($814), (iii) lower direct marketing activities in the U.S. ($722), and (iv) lower international selling costs ($283).

Research and development expenses increased $145 or 4.6% for the six months ended June 30, 2005 compared to the same period in 2004. In the six months ended June 30, 2005, research and development expenses were 10.7% of net revenue, up from 9.4% of net revenue in the same period in 2004. The increase is primarily due to higher payroll and project costs for product development focused on completing the traditional in-hospital defibrillator product for GE Healthcare which is expected to be released in the third quarter ($205), offset by the reduction of the Complient engineering group ($107).

General and administrative expenses increased $293 or 3.5% during the six months ended June 30, 2005 compared with the same period in 2004. As a percentage of revenue, general and administrative expenses increased to 28.6% in the six months ended June 30, 2005 from 25.6% in the same period in 2004. The increase was primarily due to: (i) an increase in bad debt expense primarily related to the potential uncollectibility of one foreign account ($380), (ii) higher legal costs primarily related to the Philips litigation ($352), (iii) settlement of certain litigation ($216), and (iv) increased regulatory and quality assurance activities ($332). This increase is primarily offset by a reduction in costs related to the Complient business, primarily headcount and facilities ($729) and a reduction of headcount and related expenses from consolidating our international operations in the second half of 2004 ($419).

During the six months ended June 30, 2005, operating expenses included $2,152 of new expenses related to the proposed merger transaction with Quinton ($1,758) and related shareholder litigation ($394). These expenses were primarily comprised of legal, accounting, and consulting fees.

Amortization of intangible assets included in operating expenses was $808 for the six months ended June 30, 2005, a decrease of $199 or 19.8% from the $1,007 for the same period in 2004.

During the quarter ended March 31, 2005, our stock price declined significantly resulting in our market capitalization falling below the carrying amount of equity. Therefore, in accordance with SFAS 142, we performed an impairment test and obtained third-party valuations to assist with this analysis. The fair value estimates used in the initial impairment test, which were computed primarily based on the present value of future cash flows, indicated that the carrying amount exceeded the fair value and led us to conclude that goodwill was impaired. The implied fair value of goodwill was then determined through the allocation of the fair value to the underlying assets and liabilities. During the quarter ended March 31, 2005, a non-cash goodwill impairment charge of $47,269 was recorded to adjust the carrying value of our goodwill to the implied fair value. At June 30, 2005, our market capitalization exceeded our carrying value; therefore, no additional impairment charge was recorded.

Interest and Other Expense, Net

Net interest and other expense increased by $1,948 or 57.8% to $5,318 for the six months ended June 30, 2005 compared to $3,370 for the same period in 2004. This increase was primarily due to: (i) a charge relating to the issuance of shares and a cash payment as consideration for delays in filing a contractually required registration statement in connection with the prior offering ($1,449), (ii) an increase of interest expense and amortization of related warrant expense and debt issuance costs related to the Senior Notes, including the impact of the additional warrants issued in March 2004 and the warrant exercise price modification in January 2005 ($244), and (iii) higher realized and unrealized losses of foreign currency activity primarily related to the large UK government sale in pounds ($385). These increases in expenses were partially offset by higher interest and other non-operating income ($142). Total interest expense was $3,614 for the six months ended June 30, 2005 compared to $3,358 for the same period in 2004.

Liquidity and Capital Resources

	June 30, 2005	December 31, 2004
Working capital	$19,159	$27,046

Current ratio (current assets to current liabilities)	2.4 : 1.0	2.6 : 1.0
Cash and cash equivalents	$7,336	$13,913
Accounts receivable, net	$11,875	$17,978
Inventories, net	$11,208	$9,680
Short-term and long-term borrowings	$55,588	$52,664

The decrease in our current ratio, working capital and cash and cash equivalents is primarily due to cash used from operations during the six months ended June 30, 2005.

At June 30, 2005, our days sales outstanding on accounts receivable (“DSO”) was approximately 69 days compared to approximately 79 days at December 31, 2004, calculated based on a quarterly period using the ending net accounts receivable balance. We anticipate that our DSO will continue to average less than 90 days during 2005.

In February 2004, we secured a $5,000 line of credit with Silicon Valley Bank. The line of credit may be used to provide additional working capital, as needed, to fund our continued growth. This 24-month facility is collateralized by accounts receivable, inventory and cash and cash equivalents, has an interest rate of the bank's prime rate plus .75% (with a floor of 5%) payable monthly, and requires us to maintain certain financial covenants. In February 2005, we obtained a waiver from the bank for the quarter and year ended December 31, 2004 for non-compliance with certain financial covenants required by the line of credit agreement and which also modified one of the financial covenants for 2005. In May 2005, we obtained an amendment from the bank to exclude the first quarter goodwill impairment charge from the EBITDA calculation for 2005. As of June 30, 2005, we were not in compliance with the cumulative EBITDA covenant, as amended. However, in August 2005, we obtained a waiver for such non-compliance from the bank for the quarter ended June 30, 2005. There was no outstanding balance on the line at June 30, 2005 or through the date of this filing, however, there were letters of credit totaling $157 at June 30, 2005 issued as collateral for performance bonds that reduce the available balance on the line of credit.

From inception, our sources of funding for operations and mergers and acquisition activity were derived from placements of debt and equity securities. In 2001, we raised approximately $37,000 in a series of private equity placements and through the receipt of proceeds from the exercise of outstanding options and warrants. In May 2002, we issued notes payable in the aggregate principal amount of $50,000. With the proceeds from these notes, we repaid the $26,468 plus accrued interest in senior promissory notes relating to the Survivalink acquisition. In September 2003, we raised $8,375 in a private equity placement of 2,233,334 shares of our common stock at $3.75 per share to a small group of institutional and accredited investors. In connection with this offering, we also issued 223,333 five-year warrants with an exercise price of $5.00 per share. In July 2004, we raised gross proceeds of approximately $12,370 in a private equity placement of 5,219,409 shares of our common stock at $2.37 per share. In connection with this offering, we issued five-year warrants to purchase 2,087,763 shares of common stock at an exercise price of $2.84 per share. In January 2005, as consideration for delays in filing the contractually required registration statement for the July 2004 private placement, we agreed with the investors to make a cash payment of $556, to issue an additional aggregate of 476,637 shares of common stock at the market value on the date of the agreement, and to reduce the exercise price on all the investors' warrants issued in such private placement to $2.50 per share. We incurred a charge of $1,449 in the quarter ended March 31, 2005 as a result of this agreement.

In May 2002, we entered into a Senior Note and Warrant Purchase Agreement (the "Agreement") with investors, pursuant to which the investors loaned the Company $50,000. Under the original terms of the Agreement, the Senior Notes issued thereunder were due and payable in cash on May 30, 2007, unless accelerated pursuant to the terms of the Agreement, and accrue interest at 6.9% per annum. During the first three years of the term of the Senior Notes, accrued and unpaid interest on the Senior Notes would, at the option of the Company, a) be due and payable in cash, or b) accrue and be paid in kind, in each case quarterly in arrears, and then due on the termination date of the Senior Notes. After the end of the third year of the term of the Senior Notes, any additional accrued and unpaid interest on the Senior Notes would be due and payable in cash quarterly in arrears, and on the termination date of the Senior Notes. The Senior Notes have certain monthly and quarterly financial and non-financial covenants. The Senior Notes are collateralized by our assets and the assets of our subsidiaries, to the extent permitted by law. Proceeds from the Senior Notes were used to repay $26,468 of senior promissory notes plus accrued interest issued in connection with the acquisition of Survivalink and the remaining proceeds were used for working capital purposes.

In connection with the Senior Notes, the investors were issued warrants (the "Warrants") for the purchase of an aggregate of 10,000,000 shares of our common stock at an exercise price of $3.00 per share, and an aggregate of 3,000,000 shares of common stock at an exercise price of $4.00 per share. The Warrants are immediately exercisable, expire by their terms on May 30, 2009 and are subject to certain limited antidilution adjustments. After two years, we have the right to force the exercise of the Warrants pursuant to the terms of the Agreement. The proceeds from the Senior Notes were allocated between the Senior Notes and the Warrants based on their relative fair values which resulted in a discount being recorded on the Senior Notes pursuant to APB No. 14 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants." We considered a number of factors, including an independent valuation, when determining the fair value of the Warrants. The significant assumptions used in the Black-Scholes model were: stock price of $2.90, adjusted downward for a dilution factor to $2.68; risk free rate of 4.98%; volatility

of 0.90; dividend yield of 0%; and contractual term of 7 years. Such allocation resulted in a discount being recorded on the Senior Notes in the amount of $11,815, which is being amortized over the term of the Senior Notes using the effective interest method. In addition, we paid approximately $2,760 in debt issuance costs which are being amortized over the term of the Senior Notes using the effective interest method.

In March 2004, we amended the Agreement in order to ease certain financial covenants into 2005 to reflect our actual and expected financial results. In exchange for these modifications, we issued the senior note holders 500,000 additional warrants to purchase shares of common stock at $3.95 per share. The warrants were valued at $1,301 using a Black-Scholes model. The significant assumptions used in the model were: stock price of $3.98; risk free rate of 3.2%; volatility of 0.65; dividend yield of 0%; and contractual term of seven years. The value of the warrants is being amortized over the remaining term of the Senior Notes using the effective interest method.

Under the antidilution provisions of the Agreement, which were triggered by the September 2003 and July 2004 private placements and the July 2003 warrant issuance to GE Healthcare, an additional 205,451 warrants were issuable to the senior note holders at exercise prices ranging from $2.97 to $3.88. In addition, the exercise prices of the original warrants issued were also reduced to: (i) $2.97 for the warrants to purchase 10,000,000 shares that had an original exercise price of $3.00, (ii) $3.88 for the warrants to purchase 3,000,000 shares that had an original exercise price of $4.00, and (iii) $3.86 for the warrants to purchase 500,000 shares that had an original exercise price of $3.95.

In January 2005, we entered into an amendment and limited waiver (the "Amendment") to the Agreement with the senior note holders. Pursuant to the terms of the Amendment, we and the senior note holders agreed to: (i) extend the maturity date of the $50,000 in aggregate principal amount of Senior Notes issued under the Agreement by twelve months to May 29, 2008; (ii) defer all cash interest payments until maturity; and (iii) modify certain financial covenants regarding minimum EBITDA, minimum debt to capitalization and maximum capital expenditures, and delete certain other financial covenants for 2005 through maturity. Additionally, the senior note holders waived certain covenant violations, including all financial covenant violations for the quarter and year ended December 31, 2004. In exchange for the foregoing amendments and waiver contained in the Amendment, we and the senior note holders agreed to reduce the number of warrants to purchase shares of common stock issued in connection with the Agreement to 13,438,599 and reduce the exercise price of those warrants to $2.00 per share, down from the original weighted average price of approximately $3.21 per share. The fair value of the change in the exercise price of the warrants was valued at $2,777 using a Black-Scholes model. The significant assumptions used in the model were: stock price of $1.70; risk free rate of 3.5%; volatility of 75%; dividend yield of 0%; and contractual term of approximately 4.3 years. The value of this change to the warrant exercise price is being amortized over the remaining term of the Senior Notes using the effective interest method.

In May 2005, we obtained an amendment from the senior note holders to exclude the first quarter goodwill impairment charge from the financial covenant calculations for 2005. At June 30, 2005, we were in compliance with all covenants required by the Agreement, as amended.

The accompanying consolidated financial statements have been prepared on the basis that we will continue as a going concern and that we will recover our assets and satisfy our liabilities in the normal course of business. From inception, we have incurred substantial losses and negative cash flows from operations. As of June 30, 2005, we had cash on hand of $7,336, working capital of $19,159, long term debt of $55,575, and an accumulated deficit of $185,279.

We believe that our current cash balance, in combination with net cash expected to be generated from operations and our unused line of credit of $5,000, will fund ongoing operations through the end of 2005. Our expected net cash from operations is predicated on achieving certain revenue levels and maintaining our cost of goods, operating expenses, and DSO ratio. Our expected results for 2005 assume the completion of the pending merger with Quinton in the third quarter of 2005. If the proposed merger is not consummated, or is materially delayed for any reason, our expected revenues, operating expenses and net loss for 2005 may be negatively impacted. Additionally, in the event the merger is not consummated in either the third or fourth quarter of 2005, we would need to seek additional funding through equity or debt financings to sustain our current level of operations.

In addition, our line of credit and our Senior Notes require maintenance of certain financial covenants, of which we were in violation during 2004 and 2005. Even though we have obtained waivers and/or amendments for all covenant violations, if in the future, we fail to comply with these financial covenants as amended, we could be unable to use our line of credit or be in default under the Senior Notes. If we are in default, we may be subject to claims by the senior note holders seeking to enforce their security interest in our assets. Such claims, if they arise, may substantially restrict or even eliminate our ability to utilize our assets in conducting our business, and may cause us to incur substantial legal and administrative costs.

In the event that we require additional funding, we will attempt to raise the required capital through either debt or equity arrangements. We cannot provide any assurance that the required capital would be available on acceptable terms, if at all, or that any financing activity would not be dilutive to our current shareholders. If we are not able to raise additional funds, we may be required to significantly curtail our operations and this would have an adverse effect on our financial position, results of operations and cash flows and as such, there may be substantial doubt about our ability to continue as a going concern.

Cash Flows

The following table presents the abbreviated cash flows for the six months ended June 30:

	2005	2004
Net cash used in operating activities	$(5,051)	$(4,517)
Net cash used in investing activities	(931)	(333)
Net cash provided by (used in) financing activities	(595)	398
Effect of exchange rates on cash and cash equivalents	—	(8)
Net decrease in cash and cash equivalents	(6,577)	(4,460)
Cash and cash equivalents, beginning of year	13,913	8,871
Cash and cash equivalents, end of year	$7,336	$4,411

Cash used in operating activities for the six months ended June 30, 2005 increased by $534 compared to the same period in 2004. This increase is primarily due to an increase in the operating loss, exclusive of the $47,269 goodwill impairment in the six months ended June 30, 2005, of $1,510, an increase in the change in inventories of $953, and an increase in the change in accounts payable and accrued expenses of $2,388, partially offset by an increase in the change of accounts receivable of $2,497 and a decrease in the change of prepaid expenses and other assets of $1,592.

Cash used in investing activities for the six months ended June 30, 2005 increased by $598 compared to the same period in 2004. This increase was primarily attributable to no proceeds from sales of assets in the six months ended June 30, 2005 compared to $672 of proceeds in the same period in 2004.

Cash used in financing activities for the six months ended June 30, 2005 increased by $993 compared to the cash provided by financing activities for the six months ended June 30, 2004. This increase was primarily due to the cash consideration paid for the filing delay of $556 during the six months ended June 30, 2005 and a decrease in proceeds from the exercise of stock options of $460 compared to the same period in 2004.

Off-Balance Sheet Arrangements

At June 30, 2005, our Danish subsidiary has outstanding bank performance guarantees totaling 1,612 Danish Kroner (approximately $261 in U.S. dollars) that were issued in 1999 through 2002 in connection with sales contracts to foreign governments. These bank performance guarantees expire in 2005 and 2006, but are not officially released until the customer notifies the bank that renewal is not required. In addition, we have issued performance bonds for $157 collateralized by letters of credit issued by Silicon Valley Bank under our line of credit in connection with sales contracts. The performance bonds expire through November 2007. We have no further performance obligations under these contracts other than providing normal warranty service on the products sold under the contracts.

In addition, we have non-cancelable operating leases entered into in the ordinary course of business. For liquidity purposes, we choose to lease our facilities, automobiles, and certain equipment instead of purchasing them.

Contractual Obligations and Other Commercial Commitments

We had no material commitments for capital expenditures as of June 30, 2005.

The following table presents our expected cash requirements for contractual obligations outstanding as of June 30, 2005:

	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Senior Notes, including interest expense	$75,553	$—	$75,553	$—	—
Long-term obligations	31	13	18	—	—
Operating lease obligations	4,789	1,582	2,954	253	—
	$80,373	$1,595	$78,525	$253	$—

Income Taxes

As of December 31, 2004, we have research and experimentation credit carry forwards for federal and state purposes of approximately $3,000 and $1,000, respectively. These credits begin to expire in 2006 for federal purposes and carry forward indefinitely for California state purposes. We have capital loss carry forwards of approximately $1,000 for both federal and state purposes which begin to expire in 2006 for federal purposes and carry forward indefinitely for state purposes. We also have

approximately $139,000 and $69,000, respectively, of federal and state net operating loss carry forwards which will begin to expire in 2006 and 2005, respectively.

Internal Revenue Code Sections 382 and 383, and similar state provisions place certain limitations on the annual amount of loss and credit carryforwards that can be utilized if certain changes to a company's ownership occur. The acquisition of Survivalink in 2001 resulted in a change in ownership pursuant to Section 382 of the Internal Revenue Code. The annual limitation is as follows: $8,300 for 2005, $6,500 for 2006 and $1,800 thereafter. The amount of net operating loss subject to this limitation, for federal and state purposes, is approximately $53,000 and $24,000, respectively. Research and experimentation credits and capital loss carryovers are also subject to the limitation under Internal Revenue Code Sections 382 and 383 and similar state provisions. The utilization of net operating loss carryovers and other tax attributes may be subject to further substantial limitations if certain ownership changes occur in future periods.

We recorded deferred tax assets of approximately $16,000 upon the acquisition of Survivalink in 2001. The deferred tax assets are composed primarily of loss and tax credit carryforwards and other temporary differences. The deferred tax assets recorded were reduced by a valuation allowance of $16,000. Due to the expiration of some of the net operating loss carryovers the balance is $13,000 as of December 31, 2004. If we determine that we will realize the tax benefit related to these Survivalink deferred assets in the future, the related decrease in the valuation allowance will reduce goodwill instead of the provision for taxes.

We also recorded deferred tax assets of approximately $8,000 upon the acquisition of Cadent in 2000. The deferred tax asset was composed primarily of loss carryforwards and other temporary differences. The deferred tax assets recorded were also reduced by a valuation allowance of $8,000. Due to the expiration of some of the net operating loss carryovers, the balance is $7,000 as of December 31, 2004. If we determine that we will realize the tax benefit related to these Cadent deferred assets in the future, the related decrease in the valuation allowance will reduce goodwill instead of the provision for taxes.

Additionally, approximately $1,600 of the net operating loss carryforward represents deductions claimed as the result of stock options. If we determine that we will realize the benefit of this net operating loss carryforward in the future, the related decrease in the valuation allowance will be credited to additional paid-in capital instead of the provision for taxes.

At December 31, 2004, we had foreign net operating loss carryforwards. The losses carry over indefinitely, unless certain defined changes in business operations occur during the carryover period. We have established a full valuation allowance against these deferred tax assets since it cannot be established that these foreign subsidiaries' net operating loss carryforwards will be fully utilized.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses for each period.

The following represents a summary of our critical accounting policies, defined as those policies that we believe are: (a) the most important to the portrayal of our financial condition and results of operations, and (b) that require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

Valuation of Accounts Receivable

We maintain an allowance for uncollectible accounts receivable to estimate the risk of extending credit to customers. The allowance is estimated based on customer compliance with credit terms, the financial condition of the customer, and collection history, where applicable. Additional allowances could be required if the financial condition of our customers were to be impaired beyond our estimates.

Valuation of Inventory

Inventory is valued at the lower of cost (estimated using the first-in, first-out method) or market. We periodically evaluate the carrying value of inventories and maintain an allowance for obsolescence to adjust the carrying value, as necessary, to the lower of cost or market. The allowance is based on our assessment of future product demand, historical experience and technical obsolescence, as well as other factors affecting the recoverability of the asset through future sales. Unfavorable changes in estimates of obsolete inventory would result in an increase in the allowance and a decrease in gross profit.

Goodwill and Other Intangibles

In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets," goodwill and other intangible assets with indefinite lives are no longer subject to amortization but are tested for impairment annually or whenever events or changes in circumstances indicate that the asset might be impaired. We operate in one operating segment and have one reporting unit; therefore, we test goodwill for impairment at the consolidated level against the fair value of the Company. Per SFAS No. 142, the fair value of a reporting unit refers to the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis on the last day of the year for the measurement, if available. We assess potential impairment on an annual basis on the last day of the year and compare our market capitalization to the book value of the Company including goodwill. A significant decrease in our stock price could indicate a material impairment of goodwill which, after further analysis, could result in a material charge to operations. If goodwill is considered impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the goodwill exceeds the implied fair value of that goodwill. Inherent in our fair value determinations are certain judgments and estimates, including projections of future cash flows, the discount rate reflecting the risk inherent in future cash flows, the interpretation of current economic indicators and market valuations and strategic plans with regard to operations. A change in these underlying assumptions would cause a change in the results of the tests, which could cause the fair value of the reporting unit to be less than its respective carrying amount. In addition, to the extent that there are significant changes in market conditions or overall economic conditions or strategic plans change, it is possible that future goodwill impairments could result, which could have a material impact on the financial position and results of operations.

See Note 3 of the Consolidated Condensed Notes to Financial Statements for results of recent impairment tests.

Other intangible assets with finite lives continue to be subject to amortization, and any impairment is determined in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets.

Valuation of Long-Lived Assets

In accordance with SFAS No. 144, long-lived assets and intangible assets with determinate lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We evaluate potential impairment by comparing the carrying amount of the asset with the estimated undiscounted future cash flows associated with the use of the asset and its eventual disposition. Should the review indicate that the asset is not recoverable, our carrying value of the asset would be reduced to its estimated fair value, which is generally measured by future discounted cash flows. In our estimate, no provision for impairment is currently required on any of our long-lived assets.

Valuation of Warrants

We periodically issue warrants in connection with debt issuances and in exchange for goods and services. We follow the guidance of APB No. 14 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants" for warrants we issue in connection with debt. We follow the guidance in EITF No. 96-18 "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and EITF No. 01-9 "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" for warrants we issue in exchange for or in connection with goods and services. Management considers a number of factors, including independent valuations, when determining the fair value of warrants issued. We estimate the fair value of warrants issued using the Black-Scholes model. Of the various assumptions considered by the Black-Scholes model, the volatility and the risk free rate used require us to make certain assumptions and estimations. We estimate volatility using a statistical method based on the historical stock price for the historical period equal to the expected life of the warrant being valued. The risk free interest rate is determined using the treasury note rate for the number of years corresponding to the expected life of the warrant being valued. Potentially, the value of warrants could be materially different if different assumptions were used and under different markets conditions.

Revenue Recognition

We record revenue in accordance with SEC SAB No. 104 “Revenue Recognition in Financial Statements .” SAB No. 104 requires that product sales be recognized when there is persuasive evidence of an arrangement which states a fixed and determinable price and terms, delivery of the product has occurred in accordance with the terms of the sale, and collectibility of the sale is reasonably assured. We record product sales when we have received a valid customer purchase order for product at a stated price, the customer’s credit is approved, and we have shipped the product to the customer whereby title and risk have passed to the customer.

We are not contractually obligated to repurchase any inventory from distributors or end user customers. Some of our customers are distributors that sell goods to third party end users. For certain identified distributors where collection may be contingent on the distributor’s resale, revenue recognition is deferred and recognized on a “sell through” basis. The determination of whether sales to distributors are contingent on resale is subjective because we must assess the financial wherewithal of the distributor to pay us regardless of resale. For sales to distributors, we consider several factors, including past payment history, where available, trade references, bank account balances, Dun & Bradstreet reports and any other financial information provided by the distributor, in assessing whether the distributor has the financial wherewithal to pay regardless of, or prior to, resale of the product and that collection of the receivable is not contingent on resale.

We offer limited volume price discounts and rebates to certain customers. Volume price discounts are on a per order basis based on the size of the order and are netted against the revenue recorded at the time of shipment. We have no arrangements that provide for volume discounts at a later date, such as based on meeting certain quarterly or annual purchase levels. Rebates are paid quarterly or annually based on sales performance and are accrued for at the end of a reporting period. To date, all rebate arrangements have been immaterial.

We follow the guidance of EITF No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables." In accordance with this EITF, we consider our program management packages and training and other services as separate units of accounting when sold with an AED based on the fact that the items have value to the customer on a stand alone basis and could be acquired from another vendor. Training and AED program management service revenue is deferred and recognized at the time the training occurs. AED program management services pursuant to agreements that existed with Complient customers pursuant to annual or multi-year terms are deferred and amortized straight-line over the related contract period.

Upfront license fees are deferred and recognized to revenue using the straight-line method over the term of the related license agreement. Royalty revenue is due and payable quarterly (generally 60 days after period end) pursuant to the related license agreements. An estimate of royalty revenue is recorded quarterly in the period it is earned based on the prior quarter's historical results adjusted for any new information or trends known to management at the time of estimation.

Product Warranty

Products sold are generally covered by a warranty against defects in material and workmanship for a period of one to seven years. We accrue a warranty reserve to estimate the risk of incurring costs to provide warranty services. The accrual is based on our historical experience and our expectation of future conditions. An increase in warranty claims or in the costs associated with servicing those claims would result in an increase in the accrual and a decrease in gross profit.

Litigation and Others Contingencies

We regularly evaluate our exposure to threatened or pending litigation and other business contingencies. Because of the uncertainties related to the amount of loss from litigation and other business contingencies, the recording of losses relating to such exposures requires significant judgment about the potential range of outcomes. We are not presently affected by any litigation or other contingencies that have had, or are currently anticipated to have, a material impact on our results of operations or financial position. As additional information about current or future litigation or other contingencies becomes available, we will assess whether such information warrants the recording of additional expense relating to these contingencies. To be recorded as expense, a loss contingency must generally be both probable and measurable. If a loss contingency is material but is not both probable and estimable, we will disclose it in notes to the financial statements.

New Accounting Standards

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an Amendment of ARB No. 43, Chapter 4, 'Inventory Pricing,'" to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This statement requires those items be recognized as current-period charges. The provisions of this statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect adoption of this statement to have a material impact on our financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment" or SFAS No. 123R. SFAS No. 123R revises SFAS No. 123 "Accounting for Stock-Based Compensation" and supersedes APB No. 25 "Accounting for Stock Issued to Employees" and related interpretations and SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure." SFAS No. 123R requires compensation cost relating to all share-based payments to employees to be recognized in the financial statements based on their fair values. In April 2005, the SEC delayed the effective date of SFAS No. 123R to annual, rather than interim, reporting periods beginning after June 15, 2005. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. We are evaluating the requirements of SFAS No. 123R and expect that the adoption of SFAS No. 123R will have a material impact on our consolidated financial position or results of operation. We have not determined the method of adoption or determined whether the adoption will result in amounts recognized in the income statement that are similar to the current pro forma disclosures under SFAS No. 123.

In December 2004, the FASB issued SFAS No. 153 “Exchanges of Non-monetary Assets -- an amendment of APB Opinion No. 29 ‘Accounting for Non-monetary Transactions.’” The guidance in APB No. 29 is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are applicable for non-monetary asset exchanges occurring in fiscal years beginning after June 15, 2005. We do not expect adoption of this statement to have a material impact on our financial statements.

In December 2004, the FASB issued FSP No. 109-2 “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004.” FSP No. 109-2 provides enterprises more time (beyond the financial-reporting period during which the American Jobs Creation Act took effect) to evaluate the impact on the enterprise's plan for reinvestment or repatriation of certain foreign earnings for purposes of applying SFAS No. 109. The FSP, issued on December 21, 2004, went into effect upon being issued. We are not yet in a position to decide on whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. We expect to conclude our analysis of this repatriation incentive during 2005.

In March 2005, the SEC released SAB No. 107 “Share-Based Payment” which provides interpretive guidance related to the interaction between SFAS No. 123R and certain SEC rules and regulations, as well as provides the SEC staff’s views regarding the valuation of share-based payment arrangements for public companies. SAB No. 107 does not change the accounting required by SFAS No. 123R.

In May 2005, the FASB issued SFAS No. 154 “Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB No. 3.” SFAS No. 154 requires that all voluntary changes in accounting principles are retrospectively applied to prior financial statements as if that principle had always been used, unless it is impracticable to do so. When it is impracticable to calculate the effects on all prior periods, SFAS No. 154 requires that the new principle be applied to the earliest period practicable. SFAS No. 154 also provides that a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate effected by a change in accounting principle, and also provides that correction of errors in previously issued financial statements should be termed a “restatement.” SFAS No. 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005. We do not expect adoption of this statement to have a material impact on our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate and Market Risk.

We do not use derivative financial instruments in our investment portfolio. We are averse to principal loss and try to ensure the safety and preservation of our invested funds by limiting default risk, market risk, and reinvestment risk. We attempt to mitigate default risk by investing in only the safest and highest credit quality securities. At June 30, 2005, we invested our available cash in money market securities of high credit quality financial institutions.

Interest expense on our existing long-term debt commitments is based on a fixed interest rate and therefore it is unaffected by fluctuations in interest rates. However, our line of credit with our bank bears interest at our bank's prime rate plus .75% and if we ever draw down upon the line of credit, the outstanding balance could be affected by fluctuations in interest rates.

Foreign Currency Exchange Rate Risk.

The majority of our international sales are made in U.S. dollars; however, some sales to the U.K. are made in pounds and to other parts of Europe in Euros, and thus may be adversely affected by fluctuations in currency exchange rates. Additionally, fluctuations in currency exchange rates may adversely affect foreign demand for our products by increasing the price of our products in the currency of the countries in which the products are sold. The majority of inventory purchases, both components and finished goods, in our foreign operations are made in U.S. dollars. The functional currency of our foreign operations in Denmark and the U.K. is the U.S. dollar and therefore, the financial statements of these operations are maintained in U.S. dollars. Any assets and liabilities in foreign currencies, such as bank accounts and certain payables and receivables, are re-measured in U.S. dollars at period-end exchange rates in effect. Any transactions in foreign currencies, such as wages paid in local currencies, are re-measured in U.S. dollars using an average monthly exchange rate. Any resulting gains and losses are included in operations.

The functional currency of our Swedish holding company is the local currency. Thus, assets and liabilities are translated into U.S. dollars at period-end exchange rates then in effect. Translation adjustments are included in accumulated other comprehensive income in stockholders' equity. Gains and losses on foreign currency transactions are included in operations and were not material in any period.

Our Danish subsidiary has outstanding performance bonds totaling approximately 1,612,000 Danish Kroner (approximately $261,000 U.S. dollars) at June 30, 2005. Fluctuations in currency could increase the U.S. dollar value exposure under these guarantees.

Item 4. Controls and Procedures

Our management, including the Chief Executive Officer, Chief Financial Officer and Vice President of Finance, conducted an evaluation as of the end of the period covered by this quarterly report of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, our management concluded that the disclosure controls and procedures, as of the end of the period covered by this report, were effective in ensuring that all material information required to be disclosed in the reports we file and submit under the Exchange Act have been made known to them on a timely basis and that such information has been properly recorded, processed, summarized and reported, as required.

There have been no significant changes in our internal control over financial reporting during the most recent fiscal quarter ended June 30, 2005 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On April 30, 2003, we filed a Complaint against Defibtech, LLC for patent infringement in the United States District Court for the District of Minnesota. The Complaint alleged that Defibtech's Sentry and Reviver AEDs infringe our patented disposable electrode pre-connect technology as well as other patents. Defibtech answered the Complaint and asserted counterclaims alleging that we have engaged in activities that constitute tortious interference with present and prospective contractual relations, common law business disparagement and statutory business disparagement. We responded to the counterclaims with a complete and general denial of the allegations. On August 8, 2005, we executed a settlement agreement with Defibtech, LLC. Our allegations of infringement by Defibtech of United States Patent No.'s 5,579,919, 5,700,281 and 6,038,473 and all of Defibtech's assorted counterclaims have been fully resolved. Other terms and conditions of the settlement remain confidential. As a condition of settlement, we will receive a cash payment in the amount of $925,000.

In March 2005, six complaints were filed in the Chancery Court of Delaware concerning our merger agreement with Quinton and the transaction contemplated thereby. These six actions were later consolidated into what we refer to as the consolidated action. On May 17, 2005, an amended complaint was filed in the consolidated action. The six original complaints were:

- *Deborah Silver v. Cardiac Science, Inc., et al.*, Case No. 1138-N;
- *Lisa A. Weber v. Cardiac Science, Inc.*, et al. Case No. 1140-N;
- *Suan Investments, Inc. v. Raymond W. Cohen*, et al., Case No. 1148-N;
- *David Shaev, et al. v. Cardiac Science, Inc.*, et al., Case No. 1153-N;
- *Irvin M. Chase, et al., v. Cardiac Science, Inc.*, et al., Case No. 1159-N; and
- *James Stellato v. Cardiac Science, Inc.*, et al., Case No. 1162-N.

In March 2005, the following complaints, which we refer to as the California actions, were filed in the Superior Court of Orange County, California:

- *Albert Rosenfeld v. Cardiac Science, Inc.*, et al. Case No. 05CC00057; and
- *Jerrold Schaffer v. Cardiac Science, Inc.*, et al., Case No. 05CC00059.

On April 1, 2005, a complaint was filed in the Chancery Court of Delaware, *Oppenheim Pramerica Asset Management v. Cardiac Science, Inc. et al.*, Case No. 1222-N, which we refer to as the Oppeheim action. The Oppenheim action has not been consolidated with the consolidated action. On May 10, 2005, an amended complaint was filed by the plaintiffs in the Oppenheim action.

Generally, the complaints allege that our board of directors breached its fiduciary obligations with respect to the proposed merger transaction with Quinton because the board of directors did not negotiate sufficient compensation for our shareholders and because the board of directors engaged in self-dealing in connection with our senior note holders. The amended

complaints filed in Delaware also allege that the preliminary joint proxy statement/prospectus filed with the Securities and Exchange Commission in connection with the merger transaction did not adequately disclose material information about the transaction. The complaints seek, among other things, injunctive relief enjoining the transaction, recessionary damages if the transaction is completed and an order that our board of directors hold an auction to obtain the best value for our shareholders.

In June 2005, pursuant to an agreement of the parties to these actions, plaintiffs' counsel withdrew their motion for preliminary injunction and, on June 24, 2005, counsel for the parties in the consolidated action and the Oppenheim action executed a memorandum of understanding. As a result, plaintiffs' counsel agreed to dismiss all disclosure related claims with prejudice and to release all parties associated with the transaction in connection with such claims in exchange for our agreement to include certain additional disclosures in the joint proxy statement/prospectus. Plaintiffs' counsel in the consolidated action also agreed to dismiss the remainder of their complaint without prejudice. Plaintiffs in the Delaware actions intend to apply to the Chancery Court of Delaware for attorneys' fees. The agreement with plaintiffs' counsel in the Delaware actions is subject to final approval by the Chancery Court of Delaware. We expect that certain of the costs and fees associated with these claims will be eligible for reimbursement under our insurance policies.

While the Oppenheim action (other than the disclosure claims) and the California actions have not been dismissed, currently no motion to preliminarily enjoin the transaction is pending and we believe that no pending action is likely to prevent completion of the transaction.

Plaintiffs in the consolidated, California or Oppenheim actions may seek other remedies for their purported claims, including damages. We will vigorously contest any such claim for damages or other remedies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are filed herewith:

Exhibit 10.1	Amendment, dated June 10, 2005, to the OEM Purchase Agreement dated July 29, 2003, as amended, with GE Medical Systems Information Technologies, Inc.
Exhibit 10.2	Amendment, dated June 10, 2005, to the OEM Purchase and Supply Agreement dated July 29, 2003, as amended, with GE Medical Systems Information Technologies, Inc. *
Exhibit 10.3	Exclusive Distribution Agreement for United States and Canadian Hospitals dated June 13, 2005, with GE Medical Systems Information Technologies, Inc. *
Exhibit 31.1	Chief Executive Officer's Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
Exhibit 31.2	Chief Financial Officer's Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
Exhibit 32.1	Chief Executive Officer's Certification pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
Exhibit 32.2	Chief Financial Officer's Certification pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

* Portions of this exhibit are omitted and were filed separately with the Secretary of the Commission pursuant to Cardiac Science's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

Signatures

Pursuant to the requirements 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.

CARDIAC SCIENCE, INC.
(Registrant)

Date: August 9, 2005

By: /s/ RODERICK DE GREEF

Roderick de Greef
(Duly Authorized Officer and Principal Financial Officer)

Exhibit 10.1

THIRD AMENDMENT TO OEM PURCHASE AGREEMENT

This Third Amendment (the "Amendment") is made as of June 10, 2005, by and between Cardiac Science, Inc., a Delaware corporation ("Supplier" or "Cardiac Science" or "CSI"), a medical device developer and manufacturer of automated external defibrillators having its principal place of business at 1900 Main Street, Irvine, CA 92614 and GE Medical Systems Information Technologies, Inc., a Wisconsin corporation d/b/a GE Healthcare ("GEMS-IT"), having its principal place of business at 8200 W. Tower Avenue, Milwaukee, WI 53223.

W I T N E S S E T H:

WHEREAS, CSI and GEMS-IT are parties to that certain OEM Purchase Agreement dated July 29, 2003, Amendment One to OEM Purchase Agreement dated August 10, 2004 ("Amendment One") and Second Amendment to OEM Purchase Agreement dated February 14, 2005 (collectively, the "OEM Purchase Agreement").

WHEREAS, CSI and GEMS-IT desire to supplement and further amend the OEM Purchase Agreement as set forth herein.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Construction. Except as provided in this Amendment, the terms and conditions set forth in the OEM Purchase Agreement shall remain unaffected by the execution of this Amendment. To the extent any provisions or terms set forth in this Amendment conflict with the terms set forth in the OEM Purchase Agreement, the terms set forth in this Amendment shall govern and control. Terms not otherwise defined herein, shall have the meanings set forth in the OEM Purchase Agreement. This Amendment amends the OEM Purchase Agreement and not that certain OEM Purchase and Supply Agreement entered into by the parties on July 29, 2003.

2. Section 1.5 is hereby amended by inserting the following sentence at the end of such section:

"For the purposes of this Agreement, "GEMS-IT" shall include GEMS-IT and any GEMS-IT Affiliate or GEMS-IT Subcontractor (including distributors) involved in the marketing, sale, distribution or servicing of the OEM Products."

3. Section 1.6 is hereby deleted in its entirety and replaced with the following:

"Term of Agreement. This Agreement will commence as of the Effective Date and continue until the latter to occur of: (a) three (3) years after the date of the first delivery to GEMS-IT by Cardiac Science of the OEM Products capable of commercial resale by GEMS-IT in the United States and European countries accepting the CE Mark (the "First Delivery Date) or (b) December 31, 2008 (the "Term"), unless terminated earlier under the terms of this Agreement. If the First Delivery Date has not occurred prior to December 31, 2005, GEMS-IT may at its option terminate this Agreement.

Renewal Option. After the initial Term, this Agreement may be extended for up to two (2) additional one-year periods at the option of GEMS-IT, provided that at least two thousand one hundred and twenty five (2,125) units of OEM Products were purchased in the twelve- (12) month period immediately preceding each such additional period. The parties agree to review and adjust, by mutual agreement and in good faith, the pricing of the OEM Products for any such additional periods, to take into account any material changes in the component or assembly costs of the OEM Products. If the parties are unable to mutually agree on such pricing adjustment, the supply of OEM Products shall continue unabated, and the pricing adjustment shall be resolved in accordance with the arbitration provision contained in this Agreement, which pricing adjustment shall apply to all OEM Products purchased during the extension."

4. Section 2.16 is hereby deleted in its entirety and replaced with the following:

""Parts" means the Service Parts and the Supplies and Accessories, collectively. "Service Parts" means the replacement parts and components used to service, maintain and repair the OEM Products. "Supplies and Accessories" means the accessories, consumables and other products that may be supplied in conjunction with, used with, or used as additions to the OEM Products."

5. The third sentence of Section 3.4 is hereby deleted in its entirety and replaced with the following:

"During the initial Term, GEMS-IT shall purchase from Supplier a minimum of four hundred and twenty five (425) units of the OEM Products per calendar quarter ("Quarterly Minimum Purchase"), commencing with the first full calendar quarter after the First Delivery Date; provided, that (i) the OEM Products perform in accordance, and fully comply, with the Specifications and (ii) all regulatory approvals remain in full effect in accordance with Section 14.3. If any of the above conditions are not satisfied, then GEMS-IT shall be released from the Quarterly Minimum Purchase obligations for the quarter(s) in which such conditions are not satisfied. Any purchases in excess of one quarter's Quarterly Minimum Purchase will count toward the next Quarterly Minimum Purchase obligation that is not released; therefore, GEMS-IT's aggregate Quarterly Minimum Purchase requirement over the initial Term will not exceed five thousand nine hundred and fifty (5,950) units. If a Quarterly Minimum Purchase obligation is waived or released, GEMS-IT shall still be entitled to carry forward any purchases in excess of the Quarterly Minimum Purchase obligation that would otherwise have been in effect."

6. Section 3.5 is hereby deleted in its entirety and replaced with the following:

"The Lead Time for the OEM Products is two (2) weeks for Order(s) of units of OEM Products that are within one hundred and ten percent (110%) of the respective Quarterly Minimum Purchase obligation; provided, however, that for the last four (4) weeks of the quarter, the Lead Time will be one (1) week for the remaining amount of the Quarterly Minimum Purchase obligation. Supplier will fully support GEMS-IT's desire to deliver goods to its customers within seven (7) days of order placement and agrees that it is in the mutual business interest of the parties to ship the OEM Products on the next day or as soon as practicable after receipt of an Order.

If, during any calendar quarter, Supplier fails to meet three (3) or more Delivery Dates it has confirmed or that has been deemed accepted in accordance with Section 3.2, GEMS-IT will be released from the Quarterly Minimum Purchase for such quarter."

7. Section 9.4.2 is hereby deleted in its entirety and replaced with the following:

"Customer and Warranty Service. Outside the United States and Canada, customer service calls will be handled by GEMS-IT. If a customer calls GEMS-IT with a Product Warranty issue (GEMS-IT fields the warranty call), GEMS-IT will inform Supplier of the warranty call and will receive a RMA from Supplier. GEMS-IT or its customer will return the OEM Product for repair or replacement to Supplier's facility in Minnetonka, MN or the then current repair facility location, unless however, the repair is determined by the parties to be minor in nature, whereby based on the mutual agreement of the parties, qualified GEMS-IT service personnel may affect the minor repair on behalf of Supplier. In such instances, Supplier shall provide the replacement parts at no cost to GEMS-IT and GEMS-IT shall not charge Supplier any fee for facilitating the repair. The parties agree to work together subsequent to the launch of the OEM Product to define which minor repairs may be facilitated by GEMS-IT and to more precisely determine the parameters of the collaboration. In all other instances, Supplier will repair or replace the OEM Product and deliver the OEM Product to a location requested by GEMS-IT within two (2) weeks of Supplier's receipt of a returned OEM Product. Within the United States and Canada, customer service calls will be handled directly by Cardiac Science, and all repaired or replaced OEM Products must be delivered within two (2) weeks of Supplier's receipt of a returned OEM Product. Supplier and GEMS-IT shall work together to ensure prompt communication to the other party of all customer communication.

Loaner Inventory. Within thirty (30) days of receipt of FDA clearance of the OEM Product, Cardiac Science shall provide, at no cost to GEMS-IT, eighteen (18) OEM Products to be used by GEMS-IT as loaner inventory and to facilitate warranty exchanges for end users. These units shall be suitably configured with local languages as per GEMS-IT instructions. In all cases, freight charges to and from Supplier's facility for warranty service and loaner inventory will be paid by Supplier.

Out of Warranty Service. Outside the United States and Canada, if GEMS-IT requires out of warranty service from Cardiac Science, GEMS-IT will bill the customer as appropriate per GEMS-IT policies. GEMS-IT will inform Supplier of the customer issue and will receive a RMA from Supplier. GEMS-IT or its customer will return the product to Supplier's facility as outlined above. Supplier will repair and deliver the product to a location requested by GEMS-IT within two (2) weeks of Supplier's receipt of a returned OEM Product. Supplier will bill GEMS-IT at a discount to Supplier's then current service fee schedule, which service fee schedule shall not exceed the amount Supplier charges (after discounts) for providing similar services to its own customers. GEMS-IT will bill the customer for the service provided. Within the United States and Canada, out of warranty customer service calls will be handled directly by Cardiac Science, and all repaired OEM Products shall be delivered within two (2) weeks of Supplier's receipt of a returned OEM Product. The parties agree that a list of out of warranty services, including prices and the discount rate described above, will be added to this Agreement within sixty (60) days of the effective date of the third amendment to this Agreement, or such later date as is mutually agreed upon by the parties.

Service Training. Within the first year after the launch of the OEM Product, Supplier agrees conduct, at no cost to GEMS-IT, two (2) service training sessions at mutually agreed upon date(s) in order to train qualified GEMS-IT service personnel to provide post-warranty repair of OEM Products. Said training shall be conducted at Supplier's premises and the parties shall each bear its own travel costs. After the initial year, Supplier agrees to conduct an annual service training session at a mutually agreed upon location and date.

Service Parts. Outside the United States and Canada, if Parts are required by either GEMS-IT or its customers, GEMS-IT will inform Supplier and request direct shipment of such Parts to GEMS-IT or its customer. Supplier will bill GEMS-IT at a discount to Supplier's then current service parts schedule, which service parts schedule shall not exceed the amount Supplier charges (after discounts) for providing similar parts to its own customers. The parties agree that a list of Parts, including prices and the discount rate described above, will be added to this Agreement within sixty (60) days of the effective date of the third amendment to this Agreement, or such later date as is mutually agreed upon by the parties. Within the United States and Canada, if Service Parts are requested by a GEMS-IT customer, Supplier may sell such Service Parts directly to such customer.

Quality Reports. Supplier will provide, on a monthly basis, a quality assurance report, which will include a listing of all product related corrective and preventative action reports (CAPAs) issued globally for OEM Products (regardless of brand), and a detailed description of the root cause analysis of the reason for the report. Upon request, Supplier will provide GEMS-IT with additional information on any item that appears in the quality assurance report and participate in phone calls with GEMS-IT regarding the same. Supplier will provide, on a monthly basis, a report listing all RMAs issued globally for OEM Products, and a detailed description of the root cause analysis of the reason for the return. Supplier shall promptly respond to GEMS-IT's reasonable inquiries regarding such RMAs and, if they involve GEMS-IT's customers, the resolution of such RMAs.

Confidentiality of Customer Information. Supplier agrees that any customer-related information obtained by Supplier as a result of its interaction with GEMS-IT customers will be deemed to be GEMS-IT's "Confidential Information", and will not be used by Supplier for any commercial reason other than to fulfill its obligations under this Agreement. For clarity, this provision shall not restrict Supplier in any way from doing business with, from transmitting information, or otherwise soliciting entities or organizations that happen to be GEMS-IT customers provided that Supplier has not obtained the names, addresses and contact information for such entities or organizations by reviewing the GEMS-IT Confidential Information."

8. Section 9.5 is hereby amended by inserting the following sentence at the end of such section:

"The prices for such replacement parts, technical support, repair services and exchange units shall be calculated by adding a reasonable margin to Supplier's cost of procuring or producing such parts, support, services and units, and shall not exceed the amount Supplier charges (after discounts) for providing similar parts, support, services and units to its own customers. The parties agree that a list of such items, including prices, will be added to this Agreement within sixty (60) days of the effective date of the third amendment to this Agreement, or such later date as shall be mutually agreed upon by the parties."

9. Section 14.3 is hereby amended by inserting the following sentence after the sentence "Supplier shall be responsible for providing all necessary objective evidence and other documentation to GEMS-IT to support these filings.":

"Supplier shall provide GEMS-IT Regulatory Affairs with any proposed submission to the US Food & Drug Administration, no less than five (5) working days prior to the proposed submission date, in order for GEMS-IT Regulatory Affairs to review and revise any such proposed submission with the intention of uncovering any errors or omissions which might cause a delay in approval. Supplier shall consider revising its proposed submissions to include any reasonable revisions that GEMS-IT Regulatory Affairs shall make to any such submissions, but shall have no obligation to do so."

10. Exhibit C is hereby amended by replacing "Responder 2000" with "OEM Products" each time "Responder 2000" appears. The parties agree that the Exhibit C attached to Amendment One is the Exhibit C in effect at the time of this Amendment.

11. The portion of Exhibit C that begins "Each Responder 2000 defibrillator package includes:" is hereby deleted in its entirety and replaced with the following:

"Each OEM Product package includes:

- One OEM Product, one pair of defibrillation paddles, one rechargeable battery, one power cord and one user manual.

- Upon request of GEMS-IT, Supplier agrees that certain additional items, including without limitation patient cables, electrodes and Sp02 sensors, will be kitted together with the OEM Product for an additional charge of two hundred and fifty dollars ($250) per package kitted. For example, Supplier's kitting an order for one Powerheart ECD package (which includes one defibrillator, one user manual, one battery, & one power cord) shall entitle Supplier to a fee of $250—regardless of the value of the additional accessories to be shipped along with this one ECD package. Supplier may purchase such additional items from GEMS-IT's accessory suppliers at the same prices at which GEMS-IT is entitled to purchase. Supplier will transfer these accessories to GEMS-IT with no mark-up. At its sole discretion, GEMS-IT may choose to take over this kitting responsibility from Supplier after first giving Supplier ninety (90) days notice of its intent."

12. Exhibit C is hereby amended by inserting the following immediately below the Quantity Purchase Volume schedule:

"Volume discounts shall be determined by aggregating all purchases made by or through GEMS-IT, its Affiliates or distributors, regardless of how such OEM Products are branded. The parties agree that the charges on all invoices for OEM Products, regardless of the volume actually purchased, will remain at the pricing for the initial 1,000 units of an OEM Product, and within thirty (30) days following the end of any calendar year (including the year following the expiration of the Term), Supplier will provide Purchaser with a written accounting of the purchasing volume for all OEM Products as well as immediate payment to GEMS-IT for any discounts earned during the previous year. GEMS-IT will then have the opportunity to provide a written response to Supplier of whether it agrees or disagrees with such accounting; acceptance of the immediate payment shall not be construed as agreement with Supplier's conclusions."

13. Section 7 of Amendment One is hereby amended by deleting the following words from the fourth sentence of the first paragraph: "in the United States and Canada".

14. Section 7 of Amendment One is hereby amended by inserting a new subsection (d) to read as follows:

"(d) If CSI receives a request for OEM Products or Parts (provided, however, that this shall only be read as Supplies and Accessories in the United States and Canada), CSI will refer the request to GEMS-IT to provide such OEM Products or Parts."

15. Branding. Supplier agrees that the branding on all of Supplier's non-OEM defibrillator products that are sold into the hospital market in the United States and Canada, including without limitation, the Powerheart ECD, shall remain branded as "Powerheart", with the Cardiac Science name or logo. Supplier has the right to change the brand name, provide however, that Supplier receives prior written consent from GEMS-IT, which shall not be unreasonably withheld.

16. Governing Law. The validity, construction, performance and enforceability of this Amendment shall be governed in all respects by the laws of the State of New York, without reference to the choice-of-law provisions thereof.

17. Counterparts; Facsimile. This Amendment may be executed simultaneously in multiple counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Execution and delivery of this Amendment by exchange of facsimile copies bearing the facsimile signature of a party hereto shall constitute a valid and binding execution and delivery of this Amendment by such party. Such facsimile copies shall constitute enforceable original documents.

18. Severability. In the event any provision of this Amendment shall be determined to be invalid or unenforceable under applicable law, all other provisions of this Amendment shall continue in full force and effect unless such invalidity or unenforceability causes substantial deviation from the underlying intent of the parties expressed in this Amendment or unless the invalid or unenforceable provisions comprise an integral part of, or in inseparable from, the remainder of this Amendment. If this Amendment continues in full force and effect as provided above, the parties shall replace the invalid provision with a valid provision which corresponds as far as possible to the spirit and purpose of the invalid provision.

19. Interpretation. This Amendment has been negotiated at arm's length and between persons sophisticated and knowledgeable in the matters dealt with in this Amendment. Each party has been represented by experienced and knowledgeable legal counsel. Accordingly, any rule of law or legal decision that would require interpretation of any ambiguities in this Amendment against the party that has drafted it is not applicable and is waived. The provisions of this Amendment shall be interpreted in a reasonable manner to effect the purposes of the parties and this Amendment.

20. Entire Agreement. The terms of this Amendment are intended by the parties to be the final expression of their agreement with respect to the subject matter hereof and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Amendment constitute the complete and exclusive statement of its terms and shall supersede any prior agreement with respect to the subject matter hereof.

21. Headings. The article and section headings contained in this Amendment are for reference purposes only and will not affect in any way the meaning or interpretation of this Amendment.

IN WITNESS WHEREOF, the parties have caused this Amendment to be signed by their thereunto duly authorized representatives as of the date first above written.

Cardiac Science, Inc.

By: /s/ Raymond W. Cohen

Name: Raymond W. Cohen
Title: Chairman and CEO

GE Medical Systems
Information Technologies, Inc.

By: /s/ Matthias Weber

Name: Matthias Weber
Title: Vice President & General Manager
Cardiology Systems

Exhibit 10.2

CONFIDENTIAL PORTIONS HAVE BEEN OMITTED BASED UPON A REQUEST FOR CONFIDENTIAL TREATMENT PURSUANT TO RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934 AND HAVE BEEN SEPARATELY FILED WITH THE COMMISSION.

THIRD AMENDMENT TO OEM PURCHASE AND SUPPLY AGREEMENT

This Third Amendment (the "Amendment") is made as of June 10, 2005, by and between Cardiac Science, Inc., a Delaware corporation ("Supplier" or "Cardiac Science" or "CSI"), a medical device developer and manufacturer of automated external defibrillators having its principal place of business at 1900 Main Street, Irvine, CA 92614 and GE Medical Systems Information Technologies, Inc., a Wisconsin corporation d/b/a GE Healthcare ("GEMS-IT"), having its principal place of business at 8200 W. Tower Avenue, Milwaukee, WI 53223.

W I T N E S S E T H:

WHEREAS, CSI and GEMS-IT are parties to that certain OEM Purchase and Supply Agreement dated July 29, 2003, an "Addendum 1" to the OEM Purchase and Supply Agreement dated as of March 24, 2004, Amendment One to OEM Purchase and Supply Agreement dated August 10, 2004 ("Amendment One"), and Second Amendment to OEM Purchase and Supply Agreement dated February 14, 2005 (collectively, the "OEM Purchase and Supply Agreement").

WHEREAS, CSI and GEMS-IT desire to supplement and amend the OEM Purchase and Supply Agreement as set forth herein.

WHEREAS, CSI and GEMS-IT are simultaneously entering into that certain Exclusive Distribution Agreement for United States and Canadian Hospitals ("Exclusive Distribution Agreement") to provide GEMS-IT with certain exclusive distribution rights with respect to the OEM Products.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, is the parties hereto agree as follows:

1. Construction. Except as provided in this Amendment, the terms and conditions set forth in the OEM Purchase and Supply Agreement shall remain unaffected by the execution of this Amendment. To the extent any provisions or terms set forth in this Amendment conflict with the terms set forth in the OEM Purchase and Supply Agreement, the terms set forth in this Amendment shall govern and control. Terms not otherwise defined herein, shall have the meanings set forth in the OEM Purchase and Supply Agreement. This Amendment amends the OEM Purchase and Supply Agreement and not that certain OEM Purchase Agreement entered into by the parties on July 29, 2003.

2. Section 1.3 is hereby amended by inserting the following sentence at the end of that section:

"For the purposes of this Agreement, "GEMS-IT" shall include GEMS-IT and any GEMS-IT Affiliate or GEMS-IT Subcontractor (including distributors) involved in the marketing, sale, distribution or servicing of the OEM Products."

3. Section 1.4 is hereby deleted in its entirety and replaced with the following:

"Term of the Agreement. This Agreement will commence as of the Effective Date and continue until June 30, 2009 (the "Term"), unless terminated earlier under the terms of this Agreement. Any extension beyond the initial term shall be based upon the mutual agreement of the parties.

Notwithstanding the foregoing, this Agreement shall remain in effect and GEMS-IT shall have the right to purchase from Supplier, GE-branded Responder® AEDs and AED Pros (in GEMS-IT specified coloring) and related accessories and consumables for sale on a non-exclusive basis outside the United States and Canada (excluding the country of Japan) until December 31, 2010."

4. Section 2.15 is hereby deleted in its entirety and replaced with the following:

"Parts and Accessories" means the Service Parts and the Supplies and Accessories, collectively. "Service Parts" means the replacement parts and components used to service, maintain and repair the OEM Products. "Supplies and Accessories" means the accessories, consumables and other products that may be supplied in conjunction with, used with, or used as additions to the OEM Products."

5. Section 3.6 is hereby deleted in its entirety and replaced with the following:

"The Lead Time for the OEM Products is one (1) week for Order(s) of units of OEM Products that are within one hundred and ten percent (110%) of the volume of purchases in the previous calendar quarter. Supplier agrees that it is in the mutual business interest of the parties to ship the OEM Products on the next day or as soon as practicable after receipt of an Order.

If, during any calendar quarter, Supplier fails to meet three (3) or more Delivery Dates it has confirmed or that has been deemed accepted in accordance with Section 3.2, the then current Term of the Agreement shall be extended, and the date upon which GEMS-IT must attain minimum purchase levels to achieve exclusivity under the Exclusive Distribution Agreement shall be deferred, for an additional three (3) month period for each calendar quarter in which such failure occurs."

6. Section 9.4.1 is hereby deleted in its entirety and replaced with the following:

"Customer Service. Outside of the United States and Canada, customer service calls will be handled by GEMS-IT. If a customer calls GEMS-IT with a Product Warranty issue (GEMS-IT fields the warranty call), GEMS-IT will inform Supplier of the warranty call and will receive a RMA from Supplier. GEMS-IT or its customer will return the product for repair or replacement to Supplier's facility in Minnetonka, MN or Supplier's then current facility. Supplier will repair or replace the OEM Product and deliver the OEM Product to a location requested by GEMS-IT within two (2) weeks of Supplier's receipt of a returned OEM Product. Within the United States and Canada, customer service calls will be handled directly by Cardiac Science, and all repaired or replaced OEM Products must be delivered within two (2) weeks of Supplier's receipt of a returned OEM Product. Supplier and GEMS-IT shall work together to ensure prompt communication to the other party of all customer communication.

Loaner Inventory. Within thirty (30) days of this Amendment, Cardiac Science shall provide, at no cost to GEMS-IT, up to fifteen (15) additional GE Healthcare-branded Responder® AEDs and/or AED Pros to be used by GEMS-IT as loaner inventory and to facilitate warranty exchanges for end users. These units shall be suitably configured with local languages as per GEMS-IT instructions.

In all cases, freight charges to and from Supplier's facility for warranty service and loaner inventory will be paid by Supplier.

Out of Warranty Service. Outside the United States and Canada, if GEMS-IT requires out of warranty service from Cardiac Science, GEMS-IT will bill the customer as appropriate per GEMS-IT policies. GEMS-IT will inform Supplier of the customer issue and will receive a RMA from Supplier. GEMS-IT or its customer will return the product to Supplier's facility as outlined above. Supplier will repair and deliver the product to a location requested by GEMS-IT within two (2) weeks of Supplier's receipt of a returned OEM Product. Supplier will bill GEMS-IT at a discount to Supplier's then current service fee schedule, which service fee schedule shall not exceed the amount Supplier charges (after discounts) for providing similar services to its own customers. GEMS-IT will bill the customer for the service provided. Within the United States and Canada, out of warranty customer service calls will be handled directly by Cardiac Science, and all repaired OEM Products must be delivered within two (2) weeks of Supplier's receipt of a returned OEM Product. The parties agree that a list of out of warranty services, including prices and the discount rate described above, will be added to this Agreement within sixty (60) days of the effective date of the third amendment to this Agreement, or such later date as is mutually agreed upon by the parties.

Service Parts. Outside the United States and Canada, if Parts and Accessories are required by either GEMS-IT or its customers, GEMS-IT will inform Supplier and request direct shipment of such Parts and Accessories to GEMS-IT or its customer. Supplier will bill GEMS-IT at a discount to Supplier's then current service parts schedule, which service parts schedule shall not exceed the amount Supplier charges (after discounts) for providing similar parts or accessories to its own customers. The parties agree that a list of Parts and Accessories, including prices and the discount rate described above, will be added to this Agreement within sixty (60) days of the effective date of the third amendment to this Agreement, or such later date as is mutually agreed upon by the parties. Within the United States and Canada, if Service Parts are requested by a GEMS-IT customer, Supplier may sell such Service Parts directly to such customer.

Confidentiality of Customer Information. Supplier agrees that any customer-related information obtained by Supplier as a result of its interaction with a GEMS-IT customer will be deemed to be GEMS-IT's "Confidential Information", and will not be used by Supplier for any commercial reason other than to fulfill its obligations under this Agreement. For clarity, this provision shall not prohibit or restrict Supplier in any way from doing business with, soliciting, transmitting information to, or otherwise soliciting entities or organizations that happen to be GEMS-IT customers provided that Supplier has not obtained the names, addresses and contact information for such entities or organizations by reviewing the GEMS-IT Confidential Information.

Quality Reports. Supplier will provide, on a monthly basis, a quality assurance report, which will include a listing of all product related corrective and preventative action reports (CAPAs) issued globally for OEM Products or equivalent CSI-branded devices, and a detailed description of the root cause analysis of the reason for the report; notwithstanding the foregoing, Supplier does not need to provide any information concerning Powerheart AED G3 automatic or FirstSave AED G3 or any other Cardiac Science products that GEMS-IT does not market. Upon request, Supplier will provide GEMS-IT with additional information on any item that appears in the quality assurance report and participate in phone calls with GEMS-IT regarding the same. Supplier will provide, on a monthly basis, a report listing all RMAs issued globally for OEM Products that have been sold directly or indirectly by GEMS-IT, and a detailed description of the root cause analysis of the reason for the return. Supplier shall promptly respond to GEMS-IT's inquiries regarding RMAs if they involve GEMS-IT's customers and the resolution of such RMAs."

7. Section 9.5 is hereby amended by inserting the following sentence at the end of such section:

"The prices for such replacement parts, technical support, repair services and exchange units shall be calculated by adding a reasonable margin to Supplier's cost of procuring or producing such parts, support, services and units, and shall not exceed the amount Supplier charges (after discounts) for providing similar parts, support, services and units to its own customers. The parties agree that a list of such items, including prices, will be added to this Agreement within sixty (60) days of the effective date of the third amendment to this Agreement, or such later date as may be mutually agreed upon by the parties."

8. Exhibit A is hereby amended by inserting a new paragraph 4 to read as follows:

"4. Powerheart® model G3 Pro automated external defibrillator (AED) to be produced in GEMS-IT specified coloring and labeled GE Medical Responder® AED Pro, is a portable battery operated automated external defibrillator that analyzes a person's electrocardiogram and advises an operator to deliver an electric shock(s) to a patient in order to restore normal heart rhythm; and includes Cardiac Science's patented STAR® biphasic technology, RHYTHMx® algorithms and RescueReady® self-testing technology such as one button operation, pre-connected disposable electrode pads and status indicator. It also features manual-override operation, an ECG display, and infrared data transmission; a rechargeable battery and ECG cable are both optional."

9. Exhibit B is amended by inserting the following immediately prior to the last sentence in such Exhibit, which reads "All prices are in US Dollars (USD)":

"The parties agree that if Supplier's published list prices for the Powerheart AED G3, Powerheart AED G3 Pro and/or Powerheart CRM are reduced, then Supplier's published price to GEMS-IT shall equal *%, *% and *% of the newly reduced list price, respectively, effective on the date such list prices are reduced."

10. Section 5 of Amendment One is hereby deleted in its entirety and replaced with the following:

"Exhibit A of the OEM Purchase and Supply Agreement is amended to provide for the addition of the OEM Products known as the "Powerheart® AED G3" and

*** CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH COMMISSION.**

"Powerheart® AED G3 Pro". The specifications for these OEM Products are attached hereto as Exhibit A.

Non-Exclusive Marketing Rights. Supplier hereby grants to GEMS-IT the right to promote, sell and distribute OEM Products, branded as GEMS-IT Responder® products (in GEMS-IT specified coloring) in accordance with GEMS-IT's instructions, including Parts and Accessories, on a non-exclusive basis, world-wide (excluding only the country of Japan). During the Term, for sale limited to the hospital market in the United States and Canada, at GEMS-IT's option, the OEM Products may be branded as CSI Powerheart products or GEMS-IT Responder®.

Formal Sales Training. At mutually agreed locations and at a frequency mutual agreed to by the parties, Supplier shall provide formal sales training to GEMS-IT representatives. Each party shall bear its own costs for any such training.

Field Sales Support. During the Term for the hospital market in the United States and Canada, upon reasonable request by GEMS-IT and acceptance by Supplier, for which acceptance will not be unreasonably withheld, Supplier agrees to assist GEMS-IT field sales representatives in selling the OEM Products, Parts and Accessories. Said field support assistance shall be provided by Supplier's regional sales managers (or other such qualified Supplier personnel) and be limited to sales presentations made alongside GEMS-IT representatives to qualified hospital personnel who have a expressed bona fide interest in purchasing the OEM Products."

11. Branding. Supplier agrees that the branding on all of Supplier's non-OEM defibrillator products that are sold into the hospital market in the United States and Canada, including without limitation, the Powerheart AED G3, Powerheart AED G3 Pro and Powerheart CRM shall remain branded as "Powerheart", with the Cardiac Science name or logo. Supplier has the right to change the brand name, provide however, that Supplier receives prior written consent from GEMS-IT, which shall not be unreasonably withheld.

12. Governing Law. The validity, construction, performance and enforceability of this Amendment shall be governed in all respects by the laws of the State of New York, without reference to the choice-of-law provisions thereof.

13. Counterparts; Facsimile. This Amendment may be executed simultaneously in multiple counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Execution and delivery of this Amendment by exchange of facsimile copies bearing the facsimile signature of a party hereto shall constitute a valid and binding execution and delivery of this Amendment by such party. Such facsimile copies shall constitute enforceable original documents.

14. Severability. In the event any provision of this Amendment shall be determined to be invalid or unenforceable under applicable law, all other provisions of this Amendment shall continue in full force and effect unless such invalidity or unenforceability causes substantial deviation from the underlying intent of the parties expressed in this Amendment or unless the invalid or unenforceable provisions comprise an integral part of, or in inseparable from, the remainder of this Amendment. If this Amendment continues in full force and effect as provided above, the parties shall replace the invalid provision with a valid provision which corresponds as far as possible to the spirit and purpose of the invalid provision.

15. Interpretation. This Amendment has been negotiated at arm's length and between persons sophisticated and knowledgeable in the matters dealt with in this Amendment. Each party has been represented by experienced and knowledgeable legal counsel. Accordingly, any rule of law or legal decision that would require interpretation of any ambiguities in this Amendment against the party that has drafted it is not applicable and is waived. The provisions of this Amendment shall be interpreted in a reasonable manner to effect the purposes of the parties and this Amendment.

16. Entire Agreement. The terms of this Amendment are intended by the parties to be the final expression of their agreement with respect to the subject matter hereof and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Amendment constitute the complete and exclusive statement of its terms and shall supersede any prior agreement with respect to the subject matter hereof.

17. Headings. The article and section headings contained in this Amendment are for reference purposes only and will not affect in any way the meaning or interpretation of this Amendment.

IN WITNESS WHEREOF, the parties have caused this Amendment to be signed by their thereunto duly authorized representatives as of the date first above written.

Cardiac Science, Inc.	GE Medical Systems Information Technologies, Inc.
By: /s/ Raymond W. Cohen	/s/ Matthias Weber
Name: Raymond W. Cohen Title: Chairman and CEO	Name: Matthias Weber Title: Vice President & General Manager Cardiology Systems

Exhibit 10.3

CONFIDENTIAL PORTIONS HAVE BEEN OMITTED BASED UPON A REQUEST FOR CONFIDENTIAL TREATMENT PURSUANT TO RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934 AND HAVE BEEN SEPARATELY FILED WITH THE COMMISSION.

EXCLUSIVE DISTRIBUTION AGREEMENT

FOR

UNITED STATES AND CANADIAN HOSPITALS

This Exclusive Distribution Agreement for United States and Canadian Hospitals (this "Agreement") is made as of June 10, 2005 (the "Effective Date"), by and between Cardiac Science, Inc., a Delaware corporation ("Supplier" or "Cardiac Science" or "CSI"), a medical device developer and manufacturer of automated external defibrillators having its principal place of business at 1900 Main Street, Irvine, CA 92614 and GE Medical Systems Information Technologies, Inc., a Wisconsin corporation d/b/a GE Healthcare ("GEMS-IT"), having its principal place of business at 8200 W. Tower Avenue, Milwaukee, WI 53223.

W I T N E S S E T H:

WHEREAS, CSI and GEMS-IT are parties to that certain OEM Purchase and Supply Agreement dated July 29, 2003, an "Addendum 1" to the OEM Purchase and Supply Agreement dated as of March 24, 2004, Amendment One to OEM Purchase and Supply Agreement dated August 10, 2004 ("Amendment One"), and Second Amendment to OEM Purchase and Supply Agreement dated February 14, 2005 (collectively, the "OEM Purchase and Supply Agreement").

WHEREAS, CSI and GEMS-IT are further amending the OEM Purchase and Supply Agreement on the date of this Agreement.

WHEREAS, CSI and GEMS-IT desire to supplement the OEM Purchase and Supply Agreement by providing GEMS-IT with exclusive distribution rights to the OEM Products to United States and Canadian hospitals.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, is the parties hereto agree as follows:

1. Construction. This Agreement is separate and distinct from the OEM Purchase and Supply Agreement, and the terms and conditions set forth in the OEM Purchase and Supply Agreement shall remain unaffected by the execution of this Amendment. The rights granted to GEMS-IT hereunder are in addition to the rights granted to GEMS-IT under the OEM Purchase and Supply Agreement. Regardless of any language contained in any Order, all OEM Products purchased referencing this Agreement will be governed by the terms and conditions of the OEM Purchase and Supply Agreement and shall be treated as if they were placed under the OEM Purchase and Supply Agreement; this Agreement only provides for additional distribution rights to GEMS-IT. If this Agreement expires or is terminated, such termination shall not affect the OEM Purchase and Supply Agreement or the parties' rights and obligations with respect to the OEM Products previously sold; provided however, that if the OEM Purchase and Supply Agreement is terminated, this Agreement shall be automatically terminated. Terms not otherwise defined herein, shall have the meanings set forth in the OEM Purchase and Supply Agreement. This Agreement supplements the OEM Purchase and Supply Agreement and not that certain OEM Purchase Agreement entered into by the parties on July 29, 2003.

2. Term of the Agreement and Certain Rights Associated with Minimum Purchases. This Agreement will commence as of the Effective Date and continue until June 30, 2009 ("Term"), unless GEMS-IT fails to comply with the minimum purchase obligations contained herein, or GEMS-IT acquires a company that manufacturers external defibrillators and distributes said external defibrillators in the United States, in which case Supplier shall have the option to terminate this Agreement by providing written notice of termination, which shall be effective immediately. Any extension beyond the Term shall be based upon the mutual agreement of the parties.

3. Exclusive Distribution Rights. In addition to the distribution rights granted in the OEM Purchase and Supply Agreement, Supplier hereby grants to GEMS-IT the exclusive right to promote, sell and distribute OEM Products, including Parts and Accessories, and all of Supplier's other defibrillators, accessories, consumables or other products that may be supplied in conjunction with or as upgraded models to such defibrillators (collectively, "Other Defibrillator, Supplies and Accessories") to hospitals in the United States and Canada. For clarification, "hospitals" do not include outpatient medical clinics, emergency medical service (EMS) providers (e.g., ambulances, fire and police departments), the corporate market or government entities (i.e., where a non-medical corporation or public institution is buying a defibrillator for its own internal use, such as an airline, school or the National Park Service) and private doctors who practice in a non-hospital setting.

4. Purchase Obligation to Maintain Exclusivity. GEMS-IT has no minimum purchase commitments with respect to the sale of OEM Products, Supplies and Accessories or the Other Defibrillator, Supplies and Accessories into the hospital market in the United States and Canada; provided however, that should GEMS-IT not purchase from Supplier an aggregate total of at least * dollars ($*) of OEM Products in any one of calendar years 2006, 2007 and 2008, for delivery to hospital customers in the United States and Canada, Supplier shall have the option to terminate this

Agreement by providing written notice of termination, which shall be effective immediately. For clarity, the first time GEMS-IT would possibly lose its exclusive rights would be for calendar year 2007.

*** CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH COMMISSION.**

5. Referral of Hospital Prospects to GEMS-IT. While this Agreement is in effect and a hospital requests that CSI provide it with OEM Products, Supplies and Accessories or Other Defibrillator, Supplies and Accessories, CSI shall refer the hospital to GEMS-IT to provide such OEM Products, Supplies and Accessories or Other Defibrillator, Supplies and Accessories.

6. Sales Training and Support. As mutually agreed to by the parties, CSI shall provide formal sales training to GEMS-IT representatives at certain locations and frequency. Each party shall bear its own costs for any such training. Upon reasonable request by GEMS-IT and acceptance by Supplier, for which acceptance will not be unreasonably withheld; Supplier agrees to assist GEMS-IT field sales representatives in selling the OEM Products. Said field support assistance shall be provided by Supplier's regional sales managers (or other such qualified Supplier personnel) and be limited to sales presentations made alongside GEMS-IT representatives to qualified hospital personnel who have a expressed bona fide interest in purchasing the OEM Products.

7. CRM Clinical Sites. Attached hereto as Exhibit A is a list of Supplier's existing hospital customers in the United States who have previously purchased Powerheart CRMs (or are currently using the CRM under certain terms and conditions) ("Existing CRM Customers"). This Agreement shall not prohibit Supplier from: (i) continuing to sell Powerheart CRM, CRM parts and consumables and provide service to the Existing CRM Customers or (ii) deploying the Powerheart CRM in hospitals in the United States and Canada for the purpose of conducting clinical studies and engaging in the sales of CRM parts and consumables to support said study sites; provided, however, that Supplier shall first obtain GEMS-IT's prior written consent, which shall not be unreasonably withheld or delayed, prior to engaging in any of the activities described in (ii).

8. Governing Law. The validity, construction, performance and enforceability of this Agreement shall be governed in all respects by the laws of the State of New York, without reference to the choice-of-law provisions thereof.

9. Counterparts; Facsimile. This Agreement may be executed simultaneously in multiple counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Execution and delivery of this Agreement by exchange of facsimile copies bearing the facsimile signature of a party hereto shall constitute a valid and binding execution and delivery of this Agreement by such party. Such facsimile copies shall constitute enforceable original documents.

10. Severability. In the event any provision of this Agreement shall be determined to be invalid or unenforceable under applicable law, all other provisions of this Agreement shall continue in full force and effect unless such invalidity or unenforceability causes substantial deviation from the underlying intent of the parties expressed in this Agreement or unless the invalid or unenforceable provisions comprise an integral part of, or in inseparable from, the remainder of this Agreement. If this Agreement continues in full force and effect as provided above, the parties shall replace the invalid provision with a valid provision which corresponds as far as possible to the spirit and purpose of the invalid provision.

11. Interpretation. This Agreement has been negotiated at arm's length and between persons sophisticated and knowledgeable in the matters dealt with in this Agreement. Each party has been represented by experienced and knowledgeable legal counsel. Accordingly, any rule of law or legal decision that would require interpretation of any ambiguities in this Agreement against the party that has drafted it is not applicable and is waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the purposes of the parties and this Agreement.

12. Entire Agreement. The terms of this Agreement are intended by the parties to be the final expression of their agreement with respect to the subject matter hereof and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement constitute the complete and exclusive statement of its terms and shall supersede any prior agreement with respect to the subject matter hereof.

13. Headings. The article and section headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed by their thereunto duly authorized representatives as of the date first above written.

Cardiac Science, Inc.

By: /s/ Raymond W. Cohen

Name: Raymond W. Cohen
Title: Chairman and CEO

GE Medical Systems
Information Technologies, Inc.

By: /s/ Matthias Weber

Name: Matthias Weber
Title: Vice President & General Manager
Cardiology Systems

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Raymond Cohen, Chief Executive Officer of Cardiac Science, Inc. (the "registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2005;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principals;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2005

By: /s/ RAYMOND W. COHEN

Raymond W. Cohen
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Roderick de Greef, Chief Financial Officer of Cardiac Science, Inc. (the "registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2005;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principals;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2005

By: /s/ RODERICK DE GREEF

Roderick de Greef

Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Raymond W. Cohen, Chief Executive Officer of Cardiac Science, Inc. (the "Company"), certify, pursuant to Rule 13(a)-14(b) or Rule 15(d)-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 780(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2005

By: /s/ RAYMOND W. COHEN

Raymond W. Cohen
Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Roderick de Greef, Chief Financial Officer of Cardiac Science, Inc. (the "Company"), certify, pursuant to Rule 13(a)-14(b) or Rule 15(d)-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 780(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2005

By: /s/ RODERICK DE GREEF

Roderick de Greef
Chief Financial Officer