

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **2001-08-03** | Period of Report: **2001-08-03**
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FILER

I STAT CORPORATION /DE/

CIK: **882365** | IRS No.: **222542664** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: **000-19841** | Film No.: **1697556**
SIC: **3845** Electromedical & electrotherapeutic apparatus

Mailing Address
104 WINDSOR CENTER
DRIVE
EAST WINDSOR NJ 08520

Business Address
104 WINDSOR CENTER
DRIVE
EAST WINDSOR NJ 08520
6094439300

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT: AUGUST 3, 2001

i-STAT CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	0-19841	22-2542664
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(COMMISSION FILE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

104 WINDSOR CENTER DRIVE, EAST WINDSOR, NJ 08520
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)(609) 443-9300
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Item 5. Other Events

i-STAT Corporation today announced that it has completed a \$34.1 million private placement of Common Stock and a new Zero Coupon Series C Preferred Stock with several institutional investors. The purchase price for the shares (on an as-converted basis) is in the range of \$9.22 to \$10.00 per share, with the final purchase price to be based on a ten cent premium to the average trading price of the Company's Common Stock during a five-day measurement period following the

closing of the transaction. Upon such determination, the gross proceeds raised by the Company in the transaction may increase to \$37.0 million. UBS Warburg LLC served as lead placement agent and Dougherty & Company LLC served as co-placement agent on the transaction.

The Company intends to use the net proceeds of the offering for general corporate purposes, including the implementation of its marketing plans, new product research and development programs, expansion of manufacturing capacity, and for working capital. A portion of the net proceeds will also be used to pre-pay the \$3.5 million secured promissory note to Nova Biomedical Corporation.

The Company has agreed to register the resale of the shares issued in the private placement with the Securities and Exchange Commission. Upon effectiveness of the Registration Statement (and with certain exceptions), on the 130th day following the closing, the Series C Preferred shares will automatically convert into Common Stock, with the conversion ratio to be based on a 12% discount to the trading price of the Common Stock during a 20-day measurement period which concludes ten days prior to the conversion date. In addition, for a period of five days prior to the conversion date, the Series C Preferred shares are subject to being redeemed by either the Company or the investors (for between \$20.46 million and \$22.20 million) if there is a drop in the average trading price of i-STAT Common Stock, as measured during the conversion period, below the purchase price at closing of the placement (an "Adverse Trading Price"). Assuming conversion of the Series C Preferred shares, the Company expects that up to 3.7 million shares of Common Stock may be issued and sold in this transaction. However, the number of shares issuable will exceed 3.7 million if there is an Adverse Trading Price Change and if the Series C Preferred shares are not redeemed. In such case, the number of additional shares issuable will depend on the degree of the Adverse Trading Price Change. The Company believes that it is unlikely that the number of additional shares issuable as a result of an Adverse Trading Price Change will materially increase; however, no such assurance can be given.

In connection with the private placement, the investors were issued 6-year warrants to purchase up to an additional 1.295 million shares of i-STAT Common Stock for a strike price equal to 110% of the final purchase price for the shares of Common Stock being issued at the closing of the placement. The warrants are subject to anti-dilution protection and are callable by the Company under certain circumstances, in exchange for replacement warrants with a higher strike price. The number of shares underlying the warrants will be reduced ratably to the extent the Series C Preferred shares are redeemed (but not below 43% of the shares initially covered). Under certain circumstances, the investors will have the right to participate in i-STAT financings which are concluded within a year after the closing of the placement.

The foregoing summary does not contain all the material terms of the private placement. For a more complete description of the terms of the private placement, please see the copies of the transaction documents attached hereto as exhibits to this Current Report on Form 8-K, which are incorporated by reference into this report.

Certain statements in this Current Report on Form 8-K may relate to future events and expectations and as such constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements expressed or implied by such forward-looking statements to vary significantly from reporting period to reporting period. Such factors include, among others, competition from existing manufacturers and marketers of blood analysis products who have greater resources than the Company, economic conditions affecting the company's target markets, the uncertainty of new product development initiatives, the ability to attract and retain key scientific, technological and management personnel, dependence upon limited sources for product manufacturing components, upon a single manufacturing facility and upon innovative and highly technical manufacturing techniques, market resistance to new products and point of care blood diagnosis, inconsistency in customer order patterns, domestic and international regulatory constraints, uncertainties of international trade, pending and potential disputes concerning ownership of intellectual property, availability of capital upon favorable terms and dependence upon and contractual relationships with strategic partners, particularly Abbott Laboratories. See additional discussion under "Factors That May Affect Future Results" in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, and other factors detailed from time to time in the Company's other filings with the Securities and Exchange Commission.

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Item 7. Exhibits.

(c) Exhibits

<TABLE>

<CAPTION>

Item No.

Exhibit List

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3.4	Certificate of Designation, Preferences and Rights of Series C Convertible Preferred Stock.
10.57	Registration Rights Agreement, dated as of August 2, 2001, between Registrant and the Purchasers named therein.
10.58	Form of Warrant, issued as of August 2, 2001, to purchase shares of Common Stock of Registrant.
10.59	Securities Purchase Agreement, dated as of August 2, 2001, between the Registrant and the Purchasers named therein.

</TABLE>

SIGNATURE

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

i-STAT CORPORATION

By: /s/ Roger J. Mason

Roger J. Mason
Vice President of Finance,
Treasurer and Chief Financial Officer

Date: August 3, 2001

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Exhibit Index

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i-STAT CORPORATION

CERTIFICATE OF DESIGNATIONS OF
SERIES C CONVERTIBLE PREFERRED STOCK

i-STAT Corporation (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware, does hereby certify that, pursuant to authority conferred upon the Corporation's Board of Directors (the "Board") by the Corporation's Restated Certificate of Incorporation, as amended and including any Certificate of Designations filed therewith (the "Certificate"), and pursuant to Section 151 of the General Corporation Law of the State of Delaware, the Board at a meeting duly held on August 1, 2001, adopted resolutions (i) authorizing a new series of the Corporation's previously authorized preferred stock, \$0.10 par value per share, and (ii) providing for the designations, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions thereof, of 25,000 shares of Series C Convertible Preferred Stock of the Corporation, as follows:

RESOLVED, that the Corporation is authorized to issue 25,000 shares of Series C Convertible Preferred Stock, \$0.01 par value per share (the "Series C Preferred Stock"), which shall have the following powers, designations, preferences and other special rights:

Section 1. Designation, Amount and Par Value. The series of preferred stock shall be designated as the Company's Series C Convertible Preferred Stock (the "Preferred Stock") and the number of shares so designated shall be 25,000 (which shall not be subject to increase without the consent of the holders of the Preferred Stock (each, a "Holder" and collectively, the "Holders")). Each share of Preferred Stock shall have a par value of \$.10 per share and a stated value equal to the greater of (i) \$1,000 and (ii) an amount equal to 60% of the aggregate purchase price paid by the original Holders pursuant to the Purchase Agreement divided by the total number of shares of Preferred Stock issued to the original Holders pursuant to the Purchase Agreement (the "Stated Value"). Capitalized terms used and not defined elsewhere in this certificate of designation shall have the respective meanings ascribed to them in Section 5. Upon any liquidation, dissolution or winding-up of the Company, no Holder shall be entitled to any liquidation preference in connection with its ownership of the shares of Preferred Stock.

Section 2. Voting Rights. Except as otherwise provided herein and as otherwise required by law, the Preferred Stock shall have no voting rights. However, so long as any shares of Preferred Stock are outstanding, the Company shall not, without the affirmative vote of the Holders the shares of the Preferred Stock then outstanding, (a) alter or change adversely the powers, preferences or rights given to the Preferred Stock or alter or amend this Certificate of Designations, (b) amend its certificate or articles of incorporation or other charter documents so as to affect adversely any rights of the Holders, (c) increase the authorized number of shares of Preferred Stock, or (d) enter into any agreement with respect to the foregoing.

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Section 3. Conversion.

(a) (i) Conversion at the option of Holder. Subject to the limitations set forth in Section 3(a) (iii), each share of Preferred Stock shall be convertible into shares of Common Stock at the Conversion Ratio, at the option of the Holder, at any time and from time to time from and after the 125th day following the Original Issue Date (such 125th day, the "Initial Conversion Date"), provided, that the Holder shall be entitled, upon receipt of the Company's written consent, to convert shares of Preferred Stock commencing the

63rd day following the Original Issue Date, even if prior to the Initial Conversion Date. Holders shall effect conversions by providing the Company with the form of conversion notice attached hereto as Exhibit A (a "Conversion Notice"). Each Conversion Notice shall specify the number of shares of Preferred Stock to be converted, the number of shares of Preferred Stock owned prior to the conversion at issue, number of shares of Preferred Stock owned subsequent to the conversion at issue and the date on which such conversion is to be effected, which date may not be prior to the date the Holder delivers such Conversion Notice by facsimile (the "Holder Conversion Date"). The number of shares of Preferred Stock shown as owned by the Holder prior to and giving effect to a conversion shall control absent manifest or mathematical error. If no Holder Conversion Date is specified in a Conversion Notice, the Holder Conversion Date shall be the date that such Conversion Notice is deemed delivered hereunder. To effect conversions of Preferred Stock, a Holder shall not be required to surrender the certificate(s) representing such shares of Preferred Stock to the Company unless all of the shares of Preferred Stock represented thereby are so converted.

(ii) Automatic Conversion. Subject to the provisions of this paragraph and Section 4(b)(i), all of the shares of Preferred Stock issued to the Holder on the Original Issue Date less any shares of Preferred Stock for which Conversion Notices have previously been received or for which redemption has been made or required hereunder shall be automatically converted on the 130th day following the Original Issue Date (such 130th day, the "Automatic Conversion Date"), at the Conversion Ratio. If, on the Automatic Conversion Date: (a) (1) the Underlying Shares Registration Statement is not then effective; (b) there are not sufficient shares of Common Stock authorized and reserved for issuance upon such conversion; (c) the Common Stock is not being listed or quoted for trading on the Nasdaq or on a Subsequent Market or (d) an automatic conversion pursuant to this Section shall violate the provisions of Section 3(a)(iii), then the Holder shall be entitled to delay the automatic conversion pursuant to this Section, in whole or in part, until each applicable event or violation is cured. Each of a Holder Conversion Date and the Automatic Conversion Date is collectively referred to herein as a "Conversion Date."

(iii) Certain Conversion Restrictions.

(A) Notwithstanding anything to the contrary contained herein, the number of shares of Common Stock that may be acquired by a Holder upon any conversion of shares of Preferred Stock (or otherwise in respect hereof) shall, until the 217th day following the Original Issue Date, be limited to the extent necessary to insure that, following such conversion (or other issuance), the total number of shares of Common Stock then beneficially owned by such Holder and its affiliates and any other persons whose beneficial ownership of Common Stock would be aggregated with such Holder's for purposes of Section 13(d) of the Exchange Act, does not

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exceed 9.999% of the total number of issued and outstanding shares of Common Stock (including for such purpose the shares of Common Stock issuable upon such exercise). For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. Each delivery of a Conversion Notice hereunder will constitute a representation by a Holder that it has evaluated the limitation set forth in this paragraph and determined that issuance of the full number of Underlying Shares requested in such Conversion Notice is permitted under this paragraph. The Company will have no obligation to issue shares of Common Stock in excess of the limitation referred to in this Section until such time, if any, as such shares of Common Stock may be issued in compliance with such limitation. By written notice to the Company, a Holder may waive the provisions of this Section, but (i) any such waiver or increase will not be effective until the 61st day after such notice is delivered to the Company, and (ii) any such waiver will apply only to such Holder and not to any other Holder.

(B) The Company may not issue in excess of 3,713,195 shares of

Common Stock (which equals 19.999% of the number of shares of Common Stock outstanding on the Trading Day immediately preceding the Original Issue Date) (subject to equitable adjustment for stock splits, recombinations and similar events affecting the Common Stock) upon conversions of Preferred Stock at a price per share that is less than the closing sales price of the Common Stock on the Trading Day immediately preceding the Original Issue Date (such number of shares, the "Issuable Maximum"). Each Holder shall be entitled to a portion of the Issuable Maximum equal to the quotient obtained by dividing: (x) the number of shares of Preferred Stock issued and sold to such Holder on the Original Issue Date by (y) the total number of shares of Preferred Stock issued and sold by the Company on the Original Issue Date. If any Holder shall no longer hold shares of Preferred Stock, then such Holder's remaining portion of the Issuable Maximum shall be allocated pro-rata among the remaining Holders.

(b) (i) Not later than three Trading Days after each Conversion Date, the Company will deliver to the Holder a certificate or certificates which shall be free of restrictive legends and trading restrictions (other than those required by Section 4.1(b) of the Purchase Agreement) representing the number of shares of Common Stock being acquired upon the conversion of shares of Preferred Stock. The Company shall, upon request of the Holder, if available, use its best efforts to deliver any certificate or certificates required to be delivered by the Company under this Section electronically through the Depository Trust Corporation or another established clearing corporation performing similar functions. If in the case of any Conversion Notice such certificate or certificates are not delivered to or as directed by the applicable Holder by the fourth Trading Day after the Conversion Date, the Holder shall be entitled to elect by written notice to the Company at any time on or before its receipt of such certificate or certificates thereafter, to rescind such conversion, in which event the Company shall immediately return the certificates representing the shares of Preferred Stock tendered for conversion.

(ii) In addition to any other rights available to the Holder, if the Company fails to deliver to the Holder such certificate or certificates pursuant to Section 3(b) (i), by the fourth Trading Day after the Conversion Date, and if after such fourth Trading Day the Holder purchases (in an open market transaction or otherwise) Common Stock to deliver in satisfaction of a sale by such Holder of the Underlying Shares which the Holder was entitled to receive upon such conversion (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount

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by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that such Holder was entitled to receive from the conversion at issue multiplied by (2) the market price of the Common Stock at the time of the sale giving rise to such purchase obligation and (B) at the option of the Holder, either return the shares of Preferred Stock for which such conversion was not honored or deliver to such Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its conversion and delivery obligations under Section 3(b) (i). For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted conversion of shares of Preferred Stock with respect to which the market price of the Underlying Shares on the date of conversion totaled \$10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon conversion of the shares of Preferred Stock as required pursuant to the terms hereof.

(c) (i) The conversion price for each share of Preferred Stock in effect on any Conversion Date (the "Conversion Price") shall equal \$18.45 (subject to equitable adjustment for stock splits, recombinations and similar

events), provided, that on and after the 120th day following the Original Issue Date (such 120th day, the "Reset Date"), the Conversion Price shall be reset to 88% of the average of the 20 VWAP's during the 20 Trading Days immediately preceding the Reset Date (subject to equitable adjustment for stock splits, recombinations and similar events).

(ii) If the Company, at any time while shares of Preferred Stock are outstanding, shall distribute to all holders of Common Stock (and not to Holders) evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security, then in each such case the Conversion Price at which each share of Preferred Stock shall thereafter be convertible shall be determined by multiplying the Conversion Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the Per Share Market Value determined as of the record date mentioned above, and of which the numerator shall be such Per Share Market Value on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of Common Stock as determined by the Board of Directors in good faith. If the Holder shall dispute the findings of the Company's Board of Directors, then such fair market value shall be determined by the Company's independent certified public accountants that regularly examine the financial statements of the Company. In either case the adjustments shall be described in a statement provided to the Holders of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

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(iii) All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

(iv) Whenever the Conversion Price is adjusted pursuant to the terms hereof the Company shall promptly mail to each Holder, a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

(v) In case of any reclassification of the Common Stock, or any compulsory share exchange pursuant to which the Common Stock is converted into other securities, cash or property, the Holders shall have the right thereafter to convert such shares only into the shares of stock and other securities, cash and property receivable upon or deemed to be held by holders of Common Stock following such reclassification or share exchange, and the Holders shall be entitled upon such event to receive such amount of securities, cash or property as a holder of the number of shares of Common Stock of the Company into which such shares of Preferred Stock could have been converted immediately prior to such reclassification or share exchange would have been entitled. This provision shall similarly apply to successive reclassifications or share exchanges.

(vi) Subject to Section 4, in case of any merger or consolidation of the Company with or into another Person, or sale by the Company of more than one-half of the assets of the Company (on an as valued basis) in one or a series of related transactions, a Holder shall have the right thereafter to convert its shares of Preferred Stock into the shares of stock and other securities, cash and property receivable upon or deemed to be held by holders of Common Stock following such merger, consolidation or sale, and such Holder shall be entitled upon such event or series of related events to receive such amount of securities, cash and property as the shares of Common Stock into which such shares of Preferred Stock could have been converted immediately prior to such merger, consolidation or sales would have been entitled. The terms of any such merger, sale or consolidation shall include such terms so as continue

to give the Holders the right to receive the securities, cash and property set forth in this Section upon any conversion or redemption following such event. This provision shall similarly apply to successive such events.

(vii) If (a) the Company shall declare a dividend (or any other distribution) on the Common Stock, (b) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (c) the Company shall authorize the granting to all holders of Common Stock, rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (d) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share of exchange whereby the Common Stock is converted into other securities, cash or property, or (e) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then the Company shall notify the Holders at their last addresses as they shall appear

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upon the stock books of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange. Holders are entitled to convert shares of Preferred Stock during the 20-day period commencing the date of such notice to the effective date of the event triggering such notice.

(d) The Company covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock solely for the purpose of issuance upon conversion of Preferred Stock, each as herein provided, free from preemptive rights or any other actual contingent purchase rights of persons other than the Holders, not less than such number of shares of Common Stock as shall be issuable upon the conversion of all outstanding shares of Preferred Stock. The Company covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly and validly authorized and issued and fully paid and nonassessable.

(e) Upon a conversion hereunder the Company shall not be required to issue stock certificates representing fractions of shares of Common Stock, but may if otherwise permitted, make a cash payment in respect of any final fraction of a share based on the Per Share Market Value at such time. If any fraction of an Underlying Share would, except for the provisions of this Section, be issuable upon a conversion hereunder, the Company shall pay an amount in cash equal to the Conversion Ratio multiplied by such fraction.

(f) The issuance of certificates for Common Stock on conversion of Preferred Stock shall be made without charge to the Holders thereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificate, provided that the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of such shares of Preferred Stock so converted.

(g) Any and all notices or other communications or deliveries to be provided by the Holders of the Preferred Stock hereunder, including, without limitation, any Conversion Notice, shall be in writing and delivered personally, by facsimile or sent by a nationally recognized overnight courier service, addressed to the attention of the Chief Financial Officer of the

Company addressed to 104 Windsor Center Drive, East Windsor, NJ 08520, Facsimile No.: (609) 243-9311, attention Chief Financial Officer, or to such other address or facsimile number as shall be specified in writing by the Company for such purpose. Any and all notices or other communications or deliveries to be provided by the Company hereunder shall be in writing and delivered personally, by facsimile or sent by a nationally recognized overnight courier service, addressed to each Holder at the facsimile telephone number or address of such Holder appearing on the books of the Company, or if no such facsimile telephone number or address appears, at the principal place of business of the Holder. Any notice or other communication or deliveries

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hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 5:30 p.m. (New York City time) (with confirmation of transmission), (ii) the date after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section later than 5:30 p.m. (New York City time) (with confirmation of transmission) on any date and earlier than 11:59 p.m. (New York City time) on such date (with confirmation of transmission), (iii) upon receipt, if sent by a nationally recognized overnight courier service (next day service specified), or (iv) upon actual receipt by the party to whom such notice is required to be given.

Section 4. Redemption. During the period between the Reset Date and the 5th day following the Reset Date, if the Conversion Price (subsequent to the reset pursuant to Section 3(c)(i)) shall be less than the average of the 5 VWAP's during a period which includes the Original Issue Date and the 4 Trading Days immediately following the Original Issue Date, provided, that such number shall not be greater than \$10.00 nor less than the greater of (A) \$9.00 and (B) the greater of (i) average of the Per Share Market Values for the five Trading Days preceding the Original Issue Date and (ii) the Per Share Market Value for the Trading Day immediately preceding the Original Issue Date. (subject to equitable adjustment for stock splits, recombinations and similar events, the "Target Price"), the Holder shall have a one-time right to require the Company to redeem all or a portion of the shares of Preferred Stock then held by such Holder and the Company shall have a one-time right to redeem all or a portion of the shares of Preferred Stock then held by such Holder, in each case, for a redemption price equal to the aggregate Stated Value for such shares of Preferred Stock being redeemed (such price, the "Redemption Price"). In addition, if the Underlying Shares Registration Statement is not declared effective by the Commission on or before the Reset Date, the Holder may require the Company to redeem all or a portion of the shares of Preferred Stock then held by such Holder for the Redemption Price. The redemption obligations of the Company pursuant to this Section shall be secured by those certain standby letters of credit, dated as of the Original Issue Date, as amended, and such additional standby letters of credit, as the case may be, which may be issued in accordance with Section 2.3 of the Purchase Agreement (collectively, the "Letter of Credit"), issued by PNC Bank, National Association ("PNC"). In connection with any request for redemption of shares of Preferred Stock by a Holder, such Holder shall simultaneously deliver to PNC a redemption notice to the Company and a draw certificate in the form provided for in the Letter of Credit (the "Draw Certificate"), with a copy of each such item to the Company. In connection with any request for redemption of shares of Preferred Stock by the Company, the Company shall deliver a redemption notice to the Holder and, unless the Holder elects to convert such shares of Preferred Stock pursuant to the last sentence of this Section, the Holder shall thereafter deliver to PNC a redemption notice and the Draw Certificate. Assuming due compliance by the Holder with the completion and delivery of the Draw Certificate pursuant to the terms of the Letter of Credit, the Redemption Price shall be due and payable in cash by PNC on the second (2nd) Trading Day following the date on which the redemption notice and Draw Certificate is delivered by the Holder to PNC (such second (2nd) Trading Day, the "Payment Date"). Assuming due compliance by the Holder with the completion and delivery of the Draw Certificate pursuant to the terms of the Letter of Credit, if PNC fails to pay the Redemption Price hereunder in full pursuant to this Section on the Payment Date, then, the Holder may require the

Company to immediately pay the Redemption Price, provided, that the Holder may: (i) require the Company to pay interest on all or any portion of the unpaid Redemption Price at a rate of

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18% per annum (or the lesser amount permitted by applicable law), accruing daily from the Payment Date until the Redemption Price, plus all such interest thereon, is paid in full or (ii) deem such redemption null and void with respect to all or any portion of the shares of Preferred Stock for which the Redemption Price has not been paid in full and convert such shares of Preferred Stock pursuant to Section 3(a)(ii) hereof. Unless the Holder deems such redemption null and void, the Holder shall be deemed a creditor and not subject to any conversion provisions hereof. Notwithstanding anything herein to the contrary, if the Company elects to redeem shares of Preferred Stock pursuant to the terms hereof, then the Holder shall be entitled to convert all or a portion of the shares of Preferred Stock subject to the Company's redemption notice by delivery of a notice to the Company no later than one (1) Trading Day following the Holder's receipt of the Company's redemption notice, provided, that the Conversion Price for any such conversion shall equal the Target Price.

Section 5. Definitions. For the purposes hereof, the following terms shall have the following meanings:

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the Company's common stock, par value \$0.15 per share, and stock of any other class into which such shares may hereafter have been reclassified or changed.

"Conversion Ratio" means, at any time, a fraction, the numerator of which is Stated Value and the denominator of which is the Conversion Price at such time.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Nasdaq" means the Nasdaq National Market

"Original Issue Date" shall mean the Closing Date (as defined in the Purchase Agreement).

"Per Share Market Value" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on the Nasdaq or a Subsequent Market, the closing bid price per share of the Common Stock for such date (or the nearest preceding date) on the Nasdaq or such Subsequent Market on which the Common Stock is then listed or quoted; (b) if prices for the Common Stock are then quoted on the OTC Bulletin Board, the closing bid price per share of the Common Stock for such date (or the nearest preceding date) so quoted; (c) if prices for the Common Stock are then reported in the "Pink Sheets" published by the National Quotation Bureau Incorporated (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by a majority-in-interest of the Holders.

"Person" means a corporation, an association, a partnership, an organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

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"Purchase Agreement" means the Securities Purchase Agreement, dated as of August 2, 2001, to which the Company and the original Holders are

parties, as amended, modified or supplemented from time to time in accordance with its terms.

"Registration Rights Agreement" means the Registration Rights Agreement, dated as of August 2, 2001, to which the Company and the original Holders are parties, as amended, modified or supplemented from time to time in accordance with its terms.

"Securities Act" means the Securities Act of 1933, as amended.

"Subsequent Market" means either the New York Stock Exchange, American Stock Exchange or Nasdaq SmallCap Market.

"Trading Day" means (a) a day on which the shares of Common Stock are traded on the Nasdaq or on such Subsequent Market on which the shares of Common Stock are then listed or quoted, or (b) if the shares of Common Stock are not listed on the Nasdaq or a Subsequent Market, a day on which the shares of Common Stock are traded in the over-the-counter market, as reported by the OTC Bulletin Board, or (c) if the shares of Common Stock are not quoted on the OTC Bulletin Board, a day on which the shares of Common Stock are quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding its functions of reporting prices); provided, that in the event that the shares of Common Stock are not listed or quoted as set forth in (a), (b) and (c) hereof, then Trading Day shall mean any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other government action to close.

"Transaction Documents" shall have the meaning set forth in the Purchase Agreement.

"Underlying Shares" means, collectively, the shares of Common Stock into which the shares of Preferred Stock are convertible in accordance with the terms hereof.

"Underlying Shares Registration Statement" means a registration statement that meets the requirements of the Registration Rights Agreement and registers the resale of all Registrable Securities (as defined in the Registration Rights Agreement) by the Holder, who shall be named as a "selling stockholder" thereunder.

"VWAP" means the daily volume weighted average price (as reported by Bloomberg Financial L.P. using the "VAP" function for the date in question (it being understood that the average of the VWAP's for a certain number of Trading Days shall be obtained by using the "HP" function)) of the Common Stock on the date in question, or if there is no such price on such date, then the daily volume weighted average price on the date nearest preceding such date.

EXHIBIT A

NOTICE OF CONVERSION

(To be Executed by the Registered Holder
in order to convert shares of Preferred Stock)

The undersigned hereby elects to convert the number of shares of Series C Convertible Preferred Stock indicated below, into shares of common stock, par value \$0.15 per share (the "Common Stock"), of i-STAT Corporation, a Delaware corporation (the "Company"), according to the conditions hereof, as of the date written below. If shares are to be issued in the name of a person other than undersigned, the undersigned will pay all transfer taxes payable with respect

thereto and is delivering herewith such certificates and opinions as reasonably requested by the Company in accordance therewith. No fee will be charged to the Holder for any conversion, except for such transfer taxes, if any.

<TABLE>

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Conversion calculations:

Date to Effect Conversion

Number of shares of Preferred Stock to be Converted

Stated Value of shares of Preferred Stock to be Converted

Number of shares of Preferred Stock remaining after Conversion

Number of shares of Common Stock to be Issued

Applicable Conversion Price

Signature

Name

Address

</TABLE>

[] By the delivery of this Notice of Conversion the undersigned represents and warrants to the Company that its ownership of the Common Stock does not exceed the amounts determined in accordance with Section 13(d) of the Exchange Act, specified under Section 3(a)(iii)(A) of the certificate of designation governing the rights and privileges of the Preferred Stock.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designation to be duly executed as of the 1st day of August, 2001.

i-STAT Corporation

By: /s/ Roger J. Mason

Name: Roger J. Mason
Title: Vice President
Chief Financial Officer

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of August 2, 2001, among i-STAT Corporation, a Delaware corporation (the "Company"), and the investors signatory hereto (each such investor is a "Purchaser" and all such investors are, collectively, the "Purchasers").

This Agreement is made pursuant to the Securities Purchase Agreement, dated as of the date hereof among the Company and the Purchasers (the "Purchase Agreement").

The Company and the Purchasers hereby agree as follows:

1. Definitions

Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement shall have the meanings given such terms in the Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "control," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"Business Day" means any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York or the State of New Jersey generally are authorized or required by law or other government actions to close.

"Closing Date" shall have the meaning set forth in the Purchase Agreement.

"Commission" means the Securities and Exchange Commission.

"Common Shares" shall have the meaning set forth in the Purchase Agreement.

"Common Stock" means the Company's common stock, par value \$0.15 per share, or such securities that such stock shall hereafter be reclassified into.

"Effectiveness Date" means, with respect to the initial Registration Statement required to be filed hereunder, the 90th day following the date of this Agreement and, with respect to any additional Registration Statements which may be required pursuant to Section 3(c), the 90th day following the date that such additional Registration Statement is required to be filed pursuant to Section 3(c).

"Effectiveness Period" shall have the meaning set forth in Section 2(a).

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"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Filing Date" means the 30th day following the date of this Agreement and, with respect to any additional Registration Statements which may be required pursuant to Section 3(c), the 30th day following the date that such additional Registration Statement is required to be filed pursuant to Section 3(c).

"Holder" or "Holders" means the holder or holders, as the case may be, from time to time of Registrable Securities.

"Indemnified Party" shall have the meaning set forth in Section 5(c).

"Indemnifying Party" shall have the meaning set forth in Section 5(c).

"Losses" shall have the meaning set forth in Section 5(a).

"Person" means an individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

"Preferred Stock" means the Company's Series C Convertible Preferred Stock issued to the Purchasers in accordance with the Purchase Agreement.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Prospectus" means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the

Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"Registrable Securities" means the Common Shares and the shares of Common Stock issuable upon conversion in full of the Preferred Stock and exercise in full of the Warrants.

"Registration Statement" means the registration statement and any additional registration statements contemplated by Section 3(c), including (in each case) the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

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"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 424" means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Special Counsel" means one special counsel to the Holders, for which the Holders will be reimbursed by the Company pursuant to Section 4.

"Warrants" shall have the meaning set forth in the Purchase Agreement.

2. Shelf Registration

(a) On or prior to each Filing Date, the Company shall prepare and file with the Commission a "Shelf" Registration Statement covering the resale of all Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3

(except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on another appropriate form in accordance herewith as the Holders may consent) and shall contain (except if otherwise directed by the Holders) the "Plan of Distribution" attached hereto as Annex A, and cause the Registration Statement to become effective and remain effective as provided herein. The Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event prior to the Effectiveness Date, and shall use its best efforts to keep such Registration Statement continuously effective under the Securities Act until the date which is two years after the date that such Registration Statement is declared effective by the Commission or such earlier date when all Registrable Securities covered by such Registration Statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k) as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company's transfer agent and the affected Holders (the "Effectiveness Period"), provided, that the Company shall not be deemed to have used its best efforts to keep the Registration Statement effective during the Effectiveness Period if it voluntarily takes any action that would result in the Holders not being able to sell the Registrable Securities covered by such Registration Statement during the Effectiveness Period, unless such action is required under applicable law or the Company has filed a post-effective amendment to the Registration Statement and the Commission has not declared it effective.

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(b) The initial Registration Statement required to be filed hereunder shall include a number of shares of Common Stock equal to no less than 6,475,000.

(c) If: (a) the Company fails to file with the Commission a request for acceleration in accordance with Rule 461 promulgated under the Securities Act, within five Trading Days of the date that the Company is notified (orally or in writing, whichever is earlier) by the Commission that a Registration Statement will not be "reviewed," or not subject to further review, or (b) after a Registration Statement is filed with and declared effective by the Commission, such Registration Statement ceases to be effective as to all Registrable Securities at any time prior to the expiration of the Effectiveness Period without being succeeded within fifteen Trading Days by an amendment to such Registration Statement or by a subsequent Registration Statement filed with and declared effective by the Commission (any such failure or breach being referred to as an "Event," and for purposes of clause (a) the date on which such five Trading Day period is exceeded or for purposes of clause (b) the date which such fifteen Trading Day-period is exceeded, being referred to as "Event Date"), then, on each such Event Date and on each monthly anniversary thereof until the applicable Event is cured, the Company shall pay to each Holder an amount in cash, as liquidated damages for the estimated cost to the Holders of not having liquid securities in the time contemplated by the Transaction Documents (as defined in the Purchase Agreement) and not as penalty, equal to 2% of the

purchase price paid by such Holder pursuant to the Purchase Agreement. If the Company fails to pay any liquidated damages pursuant to this Section in full within seven (7) days after the date payable, the Company will pay interest thereon at a rate of 18% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The liquidated damages pursuant to the terms hereof shall apply on a pro-rata basis for any portion of a month prior to the cure of an Event.

3. Registration Procedures

In connection with the Company's registration obligations hereunder, the Company shall:

(a) Not less than three Business Days prior to the filing of the Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference), the Company shall, (i) furnish to the Holders and their Special Counsel copies of all such documents proposed to be filed, which documents (other than those incorporated or deemed to be incorporated by reference) will be subject to the review of such Holders and their Special Counsel, and (ii) cause its officers and directors, counsel and independent certified public accountants to respond to such inquiries as shall be necessary, in the reasonable opinion of respective counsel to conduct a reasonable investigation within the meaning of the Securities Act. The Company shall not file the Registration Statement or any such Prospectus or any amendments or supplements thereto to which the Holders of a majority of the Registrable Securities and their Special Counsel shall reasonably object.

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(b) (i) Prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep the Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period and prepare and file with the Commission such additional Registration Statements in order to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably possible, and in any event within ten days, to any comments received from the Commission with respect to the Registration Statement or any amendment thereto and as promptly as reasonably possible provide the Holders true and complete copies of all correspondence from and to the Commission relating to the Registration Statement; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance with the

intended methods of disposition by the Holders thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(c) File additional Registration Statements if the number of Registrable Securities at any time exceeds 85% of the number of shares of Common Stock then registered in a Registration Statement. Notwithstanding anything herein to the contrary, if the Company shall issue Additional Warrants (as defined in the Warrants issued to the Purchasers on the Closing Date) to the Purchasers pursuant to Section 5(f) of the Warrants issued to the Purchasers on the Closing Date, then the shares of Common Stock issuable upon exercise of such Additional Warrants shall, for all purposes of this Agreement, be considered "Registrable Securities" and the Company shall file a new Registration Statement in order to register such shares of Common Stock pursuant to the terms hereof.

(d) Notify the Holders of Registrable Securities to be sold and their Special Counsel as promptly as reasonably possible (and, in the case of (i) (A) below, not less than five Business Days prior to such filing) and (if requested by any such Person) confirm such notice in writing no later than one Business Day following the day (i) (A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement is proposed to be filed; (B) when the Commission notifies the Company whether there will be a "review" of such Registration Statement and whenever the Commission comments in writing on such Registration Statement (the Company shall provide true and complete copies thereof and all written responses thereto to each of the Holders); and (C) with respect to the Registration Statement or any post-effective amendment, when the same has become effective; (ii) of any request by the Commission or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) if at any time the Company becomes aware that any of the representations and warranties of the Company contained in any Transaction Document (as defined in the Purchase Agreement) ceases to be true and correct in all material respects; (v) of the receipt by the Company of any notification with respect to the suspension of the qualification

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or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (vi) of the occurrence of any event or passage of time that makes the financial statements included in the Registration Statement ineligible for inclusion therein or any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein,

in light of the circumstances under which they were made, not misleading.

(e) Use its best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of the Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(f) Furnish to each Holder and their Special Counsel, without charge, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference, and all exhibits to the extent requested by such Person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the Commission.

(g) Promptly deliver to each Holder and their Special Counsel, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Persons may reasonably request. The Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(h) Prior to any public offering of Registrable Securities, use its best efforts to register or qualify or cooperate with the selling Holders and their Special Counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder requests in writing, to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; provided, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

(i) Cooperate with the Holders to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be delivered to a transferee pursuant to a Registration Statement, which certificates shall be free, to the extent permitted by the

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Purchase Agreement, of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any such Holders may request.

(j) Upon the occurrence of any event contemplated by Section 3(d)(vi), as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(k) Comply with all applicable rules and regulations of the Commission.

4. Registration Expenses. All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the Nasdaq, and (B) in compliance with applicable state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel for the Holders in connection with Blue Sky qualifications or exemptions of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as the Holders of a majority of Registrable Securities may designate)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses if the printing of prospectuses is requested by the holders of a majority of the Registrable Securities included in the Registration Statement), (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Company and, in case of Special Counsel for the Holders, up to \$7,500 (v) Securities Act liability insurance, if the Company so desires such insurance, and (vi) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit and the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder.

5. Indemnification

(a) Indemnification by the Company. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each of them, each Person who controls any such Holder

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(within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (1) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and approved in writing by such Holder for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (2) in the case of an occurrence of an event of the type specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e). The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement. Such indemnification shall remain in full force and effect, regardless of any investigation made by or on behalf of any Holder or its officers, directors, agents and controlling Person of such Holder and shall survive the transfer of the Registrable Securities.

(b) Indemnification by Holders. Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review) arising solely out of or based solely upon any untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto, or arising solely out of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent, but only to the extent, that such untrue statement or omission is contained in any information so furnished in writing by such Holder to the Company specifically for inclusion in such Registration

Statement or such Prospectus or to the extent that (1) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (2) in the case of an occurrence of an event of the type

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specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e). In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation. Such indemnification shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or such director, officer or controlling Person and shall survive the transfer of the Registrable Securities.

(c) Conduct of Indemnification Proceedings. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at

the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within ten Business Days of written notice thereof to the Indemnifying Party

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(regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) Contribution. If a claim for indemnification under Section 5(a) or 5(b) is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by pro rata allocation or by any other method of allocation that does not take into

account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5(d), no Holder shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such Holder from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

6. Miscellaneous

(a) Remedies. In the event of a breach by the Company or by a Holder, of any of their obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agrees that, in the event of any action for

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specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(b) [Intentionally deleted]

(c) No Piggyback on Registrations. Neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the Company in the Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof and without the consent of the Holders, enter into any agreement providing any such right to any of its security holders.

(d) Compliance. Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(e) Discontinued Disposition. Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Sections 3(d) (ii), 3(d) (iii), 3(d) (iv), 3(d) (v) or 3(d) (vi), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3(j),

or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph.

(f) Piggy-Back Registrations. If at any time during the Effectiveness Period there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each Holder written notice of such determination and, if within fifteen days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such holder requests to be registered.

(g) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and the Holders of at least two-thirds of the then outstanding Registrable Securities. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders and that

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does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(h) Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 6:30 p.m. (New York City time) (with confirmation of transmission) on a Business Day, (ii) the Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Agreement later than 6:30 p.m. (New York City time) (with confirmation of transmission) on any date and earlier than 11:59 p.m. (New York City time) on such date, (iii) the Business Day following the date of mailing, if sent by

nationally recognized overnight courier service (next day service specified), or (iv) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as follows:

If to the Company:

i-STAT Corporation
104 Windsor Center Drive
East Windsor, NJ 08520
Facsimile No.: (609) 243-9311
Attn: Chief Financial Officer

With a copy to:

Paul, Hastings, Janofsky &
Walker LLP 1055 Washington
Boulevard Stamford, CT 06901
Facsimile No.: (203) 359-3031
Attn: Esteban A. Ferrer, Esq.

If to a Purchaser:

To the address set forth under
such Purchaser's name on the
signature pages hereto.

If to any other Person who is then the registered Holder:

To the address of such Holder
as it appears in the stock
transfer books of the Company

or such other address as may be designated in writing hereafter, in the same manner, by such Person.

(i) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder. Each Holder may assign their respective rights hereunder in the manner and to the Persons as permitted under the Purchase Agreement.

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(j) Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(k) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by

and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of this Agreement), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, or such New York Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto (including its affiliates, agents, officers, directors and employees) hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence an action or proceeding to enforce any provisions of this Agreement, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

(l) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(m) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that

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they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(n) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(o) Shares Held by the Company and its Affiliates. Whenever the consent or approval of Holders of a specified percentage of Registrable Securities is required hereunder, Registrable Securities held by the Company or its Affiliates (other than any Holder or transferees or successors or assigns thereof if such Holder is deemed to be an Affiliate solely by reason of its holdings of such Registrable Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

(p) Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser hereunder is several and not joint with the obligations of any other Purchaser hereunder, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Purchaser shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

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SIGNATURE PAGES TO FOLLOW]

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

i-STAT CORPORATION

By: _____
Name:
Title:

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGES OF PURCHASERS TO FOLLOW]

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PINE RIDGE FINANCIAL INC.

By: _____
Name:
Title:

Address for Notice:
Pine Ridge Financial Inc.
Cavallo Capital Corp.
660 Madison Avenue
New York, NY 10022
Facsimile No.: 212-651-9010
Attn: Avi Vigder and Eldad Gal

With copies to:

Robinson Silverman Pearce
Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Facsimile No.: (212) 541-4630 and
(212) 541-1432
Attn: Eric L. Cohen, Esq.

17

MONTROSE INVESTMENTS LTD.

By: _____
Name:
Title:

Address for Notice:

Montrose Investments Ltd.
c/o HBK Investments L.P.
300 Crescent Court, Suite 700
Dallas, TX 75201
Facsimile No.: 214-758-1207
Attn: Jeff Estes and Kim Rozman

With copies to:

Robinson Silverman Pearce
Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Facsimile No.: (212) 541-4630 and
(212) 541-1432
Attn: Eric L. Cohen, Esq.

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DEEPHAVEN PRIVATE PLACEMENT TRADING LTD.

By: _____
Name:
Title:

Address for Notice:
c/o Deephaven Capital Management LLC
130 Cheshire Lane
Minnentonka, MN 55305
Facsimile No.: 952-249-5320
Attn: Bruce Lieberman

With copies to:

Robinson Silverman Pearce
Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Facsimile No.: (212) 541-4630 and
(212) 541-1432
Attn: Eric L. Cohen, Esq.

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KESSLER FAMILY LIMITED PARTNERSHIP

By: _____
Name:
Title:

Address for Notice:
c/o Deephaven Capital Management LLC
130 Cheshire Lane
Minnentonka, MN 55305
Facsimile No.: 952-249-5320
Attn: Bruce Lieberman

With copies to:

Robinson Silverman Pearce
Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Facsimile No.: (212) 541-4630 and
(212) 541-1432
Attn: Eric L. Cohen, Esq.

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IRVIN KESSLER

Address for Notice:
c/o Deephaven Capital Management LLC
130 Cheshire Lane
Minnentonka, MN 55305
Facsimile No.: 952-249-5320
Attn: Bruce Lieberman

With copies to:

Robinson Silverman Pearce
Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Facsimile No.: (212) 541-4630 and
(212) 541-1432
Attn: Eric L. Cohen, Esq.

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HARE & CO. F/B/O JOHN HANCOCK SMALL CAP
VALUE FUND

By: _____
Name:
Title:

Address for Notice (both required):
Hare & Co. f/b/o John Hancock Small
Cap Value Fund
c/o Bank of New York Securities Department
P.O. Box 11,203
New York, NY 10249
Facsimile No.: 617-330-6583

Hare & Co. f/b/o John Hancock Small
Cap Value Fund
c/o John Hancock Advisers, Inc.
Attn: Investment Operations, 4th Floor
Private Placement Corporate Actions
101 Huntington Avenue
Boston, Ma 02199-7603
Facsimile No.: 617-375-4808

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Annex A

PLAN OF DISTRIBUTION

The Selling Stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Stockholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The Selling Stockholders may also engage in short sales against the box, puts and calls and other transactions in securities of the Company or derivatives of Company securities and may sell or deliver shares in connection with these trades. The Selling Stockholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a Selling Stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares.

Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The Selling Stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

The Company is required to pay all fees and expenses incident to the registration of the shares, including fees and disbursements of one counsel to the Selling Stockholders. The Company has agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH APPLICABLE STATE SECURITIES OR BLUE SKY LAWS.

i-STAT CORPORATION

WARRANT

Warrant No. []

Originally Issued: August 2, 2001

i-STAT Corporation, a Delaware corporation (the "COMPANY"), hereby certifies that, for value received, [] or its, registered assigns (the "HOLDER"), is entitled to purchase from the Company up to a total of [] shares of common stock, par value \$0.15 per share (the "COMMON STOCK"), of the Company (each such share, a "WARRANT SHARE" and all such shares, the "WARRANT SHARES"), at any time and from time to time from and after the date hereof and through and including August 2, 2007 (the "EXPIRATION DATE"), at an exercise price equal to \$10.139 per share (the "INITIAL EXERCISE PRICE"); provided that the Initial Exercise Price shall be increased, on the sixth Trading Day after the original issue date of this Warrant ("ORIGINAL ISSUE DATE"), if 110% of the average of the 5 VWAPs (as defined in the Securities Purchase Agreement among the Company and the signatories thereto dated as of the Original Issue Date (the "PURCHASE AGREEMENT")) during the 5 Trading Day period beginning on the Original Issue Date (the "ADJUSTMENT AMOUNT"), is greater than the Exercise Price, to an amount equal to the lesser of (i) the Adjustment Amount and (ii) \$11.00 (as such Initial Exercise Price has been adjusted, and as it may be further adjusted from time to time as provided in Section 9, the "EXERCISE PRICE"), subject to the following terms and conditions.

1. Definitions. In addition to the terms defined elsewhere in this Warrant, capitalized terms that are not otherwise defined herein that are defined in the Purchase Agreement have the meanings given to such terms in the Purchase.

2. Registration of Warrant. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "WARRANT REGISTER"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

3. Registration of Transfers. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto duly completed and signed, to the Transfer Agent or to the Company at its address specified herein. Upon any such registration or transfer, a new warrant to purchase Common Stock, in substantially the form of this Warrant (any such new warrant, a "NEW WARRANT"), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant

not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee

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thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

4. Exercise and Duration of Warrants. This Warrant shall be exercisable by the registered Holder at any time and from time to time on or after February 3, 2002 to and including the Expiration Date. At 5:30 P.M., New York City time on the Expiration Date, the portion of this Warrant not exercised prior thereto shall be and become void and of no value, provided, that, if the closing sales price of the Common Stock on the Expiration Date is greater than 102% of the Exercise Price on the Expiration Date, then this Warrant shall be deemed to have been exercised in full (to the extent not previously exercised) on a "cashless exercise" basis at 6:30 P.M. New York City time on the Expiration Date.

5. Delivery of Warrant Shares.

(a) Upon delivery of the Form of Election to Purchase to the Company (with the attached Warrant Shares Exercise Log) at its address for notice set forth in Section 13 and upon payment of the Exercise Price multiplied by the number of Warrant Shares that the Holder intends to purchase hereunder, the Company shall promptly (but in no event later than three Business Days after the Date of Exercise (as defined herein)) issue and deliver to the Holder, a certificate for the Warrant Shares issuable upon such exercise with the legend required pursuant to the terms of the Purchase Agreement, if any. Any person so designated by the Holder to receive Warrant Shares shall be deemed to have become holder of record of such Warrant Shares as of the Date of Exercise of this Warrant. The Company shall, upon request of the Holder, if available, use its best efforts to deliver Warrant Shares hereunder electronically through the Depository Trust Corporation or another established clearing corporation performing similar functions, provided, that, the Company may, but will not be required to change its transfer agent if its current transfer agent cannot deliver Warrant Shares electronically through the Depository Trust Corporation.

A "Date of Exercise" means the date on which the Holders shall have delivered to the Company (i) the Form of Election to Purchase attached hereto (with the Warrant Exercise Log attached to it), appropriately completed and duly signed and (ii) payment of the Exercise Price for the number of Warrant Shares so indicated by the holder hereof to be purchased.

(b) If the Company fails to deliver to the Holder a certificate or certificates representing the Warrant Shares pursuant to Section 5(a) by the fourth Trading Day after the Date of Exercise, then the Holder will have the right to rescind such exercise.

(c) In addition to any other rights available to the Holder, if the Company fails to deliver to the Holder a certificate or certificates representing the Warrant Shares pursuant to Section 5(a) by the fourth Trading Day after the Date of Exercise, and if after such fourth Trading Day the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall pay (1) in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver pursuant to Section 5(b) to deliver to the Holder in connection with the exercise at issue

by (B) the closing bid price of the Common Stock at the time of the obligation giving rise to such purchase obligation and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not

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honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations under Section 5(b). For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with a market price on the date of exercise totaled \$10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In.

(d) The Company's obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Warrant Shares. If the Company breaches its obligations under this Warrant, then, in addition to any other liabilities the Company may have hereunder and under applicable law, the Company shall pay or reimburse the Holder on demand for all costs of collection and enforcement (including reasonable attorneys fees and expenses).

(e) If, by the 130th day following the date of the issuance of this Warrant (such 130th day, the "Target Date"), the Company shall have redeemed any shares of its Series C Convertible Preferred Stock (the "Preferred Stock") held by the original Holder pursuant to Section 4 of the certificate of designation governing the rights and preferences of the Preferred Stock, then, on the Target Date, up to 42.857% of the aggregate Warrant Shares subject to this Warrant shall be automatically cancelled by the Company. The number of Warrant Shares subject to automatic cancellation pursuant to the terms of this Section 5(e) shall be calculated in accordance with the following formula:

$$[(APP/PP) \times 25\%] - [([APP-SV]/PP) \times 25\%] = RWS$$

where:

WS = Warrant Shares which may be acquired under this Warrant as of the date of issuance.

APP = 60% of aggregate purchase price paid by the original Holder pursuant to the Purchase Agreement.

SV = Stated Value (as defined in the certificate of designation filed pursuant to the Purchase Agreement) of the shares of Preferred Stock redeemed from the Holder pursuant to Section 4 of such certificate of designation, if any.

PP = \$9.218; provided, that this amount shall be increased to an amount equal to the lesser of (i) \$10.00 and (ii) \$.10 plus the average of the 5 VWAPs during the five Trading Day period beginning on the date hereof, if such amount is greater (subject to equitable adjustment for stock splits, recombinations and similar events).

RWS = Number of Warrant Shares subject to cancellation pursuant to this Section 3(c).

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Notwithstanding anything herein to the contrary, prior to the Target Date, the Holder will not transfer or exercise this Warrant with respect to Warrant Shares representing 42.857% of the Warrant Shares.

(f) Commencing at any time after the six month anniversary of the date of the issuance of this Warrant, if: (i) the closing price of the Common Stock for each of 10 consecutive Trading Days is greater than \$16.50 (subject to equitable adjustment for stock splits, recombinations and similar events) (a "Trigger Period") and (ii) the Warrant Shares are either registered for resale pursuant to an effective registration statement naming the Holder as a selling stockholder thereunder and the Common Stock is listed for trading during the Trading Period and the five Trading Days immediately following the conclusion of the Trigger Period, then the Company shall have the right, upon 20 days' notice to the Holder given not later than five (5) business days after the conclusion of any such Trigger Period (the "Redemption Notice"), to redeem all of the Warrant Shares then unexercised (the "Redeemable Shares") at a price of \$.01 per (the "Redemption Price"), on the date set forth in the Redemption Notice, but in no event earlier than 20 Trading Days following the date of the receipt by the Holder of the Redemption Notice (the "Redemption Date"). The Holder may exercise this Warrant at any time prior to the Redemption Date. So long as any portion of the condition set forth in clause (ii) of this Section is satisfied during the entire 20 Trading Day period, any portion of this Warrant not exercised by 6:30 p.m. (New York City time) on the Redemption Date shall no longer be exercisable and shall be returned to the Company, and the Company, upon its receipt of the unexercised portion of this Warrant, shall issue therefor in full and complete satisfaction of its obligations under such remaining portion of this Warrant to the Holder an amount equal to the number of shares of Common Stock then issuable hereunder multiplied by the Redemption Price. The Redemption Price shall be mailed to such Holder at its address of record, and the Warrant shall be canceled. Notwithstanding anything herein to the contrary, together with its delivery of the Redemption Notice, the Company shall also deliver to the Holder a new common stock purchase warrant, in the form identical to this Warrant, mutatis mutandis (provided that such new Warrant shall not include Section 5(e) set forth herein) pursuant to which the Holder shall be entitled to purchase a number of shares of Common Stock equal to the Redeemable Shares at an exercise price equal to \$19.25 (subject to equitable adjustment for stock splits, recombinations and similar events), for a period equal to six years less the period of time which has elapsed since the original issue date of this Warrant (the "Additional Warrant"). With respect to the shares of Common Stock issuable upon exercise of the Additional Warrant, the holder of the Additional Warrant shall be entitled to all of the rights and privileges available to the original Holder pursuant to the Registration Rights Agreement (as defined in the Purchase Agreement) (the "Registration Rights Agreement") with respect to the Registrable Securities (as defined in the Registration Rights Agreement). In furtherance of the foregoing, such shares of Common Stock shall be included within the definition of "Registrable Securities"

and the Additional Warrant shall be included within the definition of "Warrants" (as defined in the Registration Rights Agreement).

6. Charges, Taxes and Expenses. Issuance of certificates for shares of Common Stock upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, withholding tax, transfer agent fee or other incidental tax or expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Warrant Shares or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Warrant Shares upon exercise hereof.

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7. Replacement of Warrant. If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a New Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity, if requested. Applicants for a New Warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe.

8. Reservation of Warrant Shares. The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Warrant Shares upon exercise of this Warrant as herein provided, the number of Warrant Shares which are then issuable and deliverable upon the exercise of this entire Warrant, free from preemptive rights or any other contingent purchase rights of persons other than the Holder (taking into account the adjustments and restrictions of Section 9). The Company covenants that all Warrant Shares so issuable and deliverable shall, upon issuance and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable.

9. Certain Adjustments. The Exercise Price and number of Warrant Shares issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this Section 9.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend on its Common Stock or otherwise makes a distribution on any class of capital stock that is payable in shares of Common Stock, (ii) subdivides outstanding shares of Common Stock into a larger number of shares, or (iii) combines outstanding shares of Common Stock into a smaller number of shares, then in each such case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to clause (i) of this paragraph shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution, and any adjustment pursuant to clause (ii) or (iii) of this paragraph shall become effective immediately after the effective date of such subdivision or combination.

(b) Pro Rata Distributions. If the Company, at any time while this Warrant is outstanding, distributes to all holders of Common Stock (i) evidences of its indebtedness, (ii) any security (other than a distribution of Common Stock covered by the preceding paragraph), (iii) rights or warrants to subscribe for or purchase any security, or (iv) any other asset (in each case, "DISTRIBUTED PROPERTY"), then in each such case the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution shall be adjusted (effective on such record date) to equal the product of such Exercise Price times a fraction of which the denominator shall be such Exercise Price and of which the numerator shall be such Exercise Price less the then fair market value of the Distributed Property distributed in respect of one outstanding share of Common Stock, as determined by the Company's Board of Directors in good faith. If the Holder shall dispute the findings of the Company's Board of Directors, then such fair market value shall be determined by the Company's independent certified public accountants that regularly examine the financial statements of the Company. As an alternative to the foregoing adjustment to the Exercise Price, at the request of the Holder delivered before the 90th day after such record date, the Company will deliver to such Holder, within five Trading Days after such request (or, if later, on the

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effective date of such distribution), the Distributed Property that such Holder would have been entitled to receive in respect of the Warrant Shares for which this Warrant could have been exercised immediately prior to such record date.

(c) Fundamental Transactions. If, at any time while this Warrant is outstanding: (i) the Company effects any merger or consolidation of the Company with or into another Person, (ii) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (iii) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (iv) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "FUNDAMENTAL TRANSACTION"), then the Holder shall have the right thereafter to receive, upon exercise of this Warrant, the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of Warrant Shares then issuable upon exercise in full of this Warrant (the "ALTERNATE CONSIDERATION"). The aggregate Exercise Price for this Warrant will not be affected by any such Fundamental Transaction, but the Company shall apportion such aggregate Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. At the Holder's request, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder's right to purchase the Alternate Consideration for the aggregate Exercise Price upon exercise thereof. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or

surviving entity to comply with the provisions of this paragraph (c) and insuring that the Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(d) Subsequent Equity Sales.

(i) If, at any time while this Warrant is outstanding, the Company or any Subsidiary issues additional shares of Common Stock or rights, warrants, options or other securities or debt convertible, exercisable or exchangeable for shares of Common Stock or otherwise entitling any Person to acquire shares of Common Stock (collectively, "COMMON STOCK EQUIVALENTS") at a price per share of Common Stock (the "EFFECTIVE PRICE") less than the Exercise Price then in effect (subject to equitable adjustment for stock splits, recombinations and similar events), then, at the option of the Holder: (i) from the Closing Date through the second year anniversary of the Closing Date, the Exercise Price shall be reduced to equal the Effective Price and (ii) following the second year anniversary of the Closing Date, the Exercise Price shall be reduced to equal the product of: (A) the Exercise Price in effect immediately prior to such issuance of Common Stock or Common Stock Equivalents times (B) a fraction, the numerator of which is the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issuance, plus (2) the number of shares of Common Stock which the aggregate Effective Price of the Common Stock issued (or deemed to be issued) would purchase at the Exercise Price, and the denominator of which is the aggregate number of shares of Common Stock outstanding or deemed to be outstanding immediately after such issuance. For purposes of the foregoing adjustment, in connection with any issuance of any Common Stock Equivalents, (x) the maximum number of shares of Common Stock potentially issuable at any time upon

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conversion, exercise or exchange of such Common Stock Equivalents (the "DEEMED NUMBER") shall be deemed to be outstanding upon issuance of such Common Stock Equivalents, (y) the Effective Price applicable to such Common Stock shall equal the minimum dollar value of consideration payable to the Company to purchase such Common Stock Equivalents and to convert, exercise or exchange them into Common Stock, divided by the Deemed Number, and (z) no further adjustment shall be made to the Exercise Price upon the actual issuance of Common Stock upon conversion, exercise or exchange of such Common Stock Equivalents. However, upon termination or expiration of any Common Stock Equivalents the issuance of which resulted in an adjustment to the Exercise Price pursuant to this paragraph, the Exercise Price shall be recomputed to equal the price it would have been had the adjustments in this paragraph been made, at the time of issuance of such Common Stock Equivalents, only with respect to that number of shares of the Common Stock actually issued upon conversion, exercise or exchange of such Common Stock Equivalents and at the Effective Prices actually paid in connection therewith.

(ii) If, at any time while this Warrant is outstanding, the Company or any Subsidiary issues Common Stock Equivalents with an Effective Price that floats or resets or otherwise varies or is subject to adjustment based on market prices of the Common Stock (a "FLOATING PRICE SECURITY"), then for purposes of applying the preceding paragraph in connection with any subsequent exercise, the Effective Price will be determined separately on each Exercise Date and will be deemed to equal the lowest Effective Price at which any holder of such Floating Price Security is entitled to acquire shares of Common Stock on such Exercise Date (regardless of whether any such holder actually acquires any shares on such date).

(iii) Notwithstanding the foregoing, no adjustment will be made under this paragraph (d) in respect of: (i) the issuance of shares of Common Stock or the granting of options, restricted stock awards or similar equity incentive awards to employees, officers and directors of the Company pursuant to any stock option plan duly adopted by the Company or to the issuance of Common Stock upon exercise of such options, (ii) the issuance of options, warrants, stock appreciation rights or shares of Common Stock to bona fide consultants of the Company in payment of consulting fees of up to an aggregate of \$500,000 in any twelve month period based upon the applicable market price of the Common Stock, (iii) the issuance of warrants or shares of Common Stock in connection with bona fide acquisitions by the Company, (iv) the sale of shares of Common Stock to Abbott Laboratories, (v) the issuance of shares of Common Stock upon exercise of any warrant or option permitted to be issued pursuant to this Section 9(d)(ii), or (vi) shares of Common Stock issuable upon conversion of the Preferred Stock and exercise of other common stock purchase warrants issued pursuant Purchase Agreement.

(e) Number of Warrant Shares. Simultaneously with any adjustment to the Exercise Price pursuant to paragraphs (a), (b) or (d) of this Section, the number of Warrant Shares that may be purchased upon exercise of this Warrant shall be increased proportionately, so that after such adjustment the aggregate Exercise Price payable hereunder for the increased number of Warrant Shares shall be the same as the aggregate Exercise Price in effect immediately prior to such adjustment.

(f) Calculations. All calculations under this Section 9 shall be made to the nearest cent or the nearest 1/100th of a share, as applicable. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

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(g) Notice of Adjustments. Upon the occurrence of each adjustment pursuant to this Section 9, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Warrant Shares or other securities issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company's Transfer Agent.

(h) Notice of Corporate Events. If the Company (i) declares a dividend or any other distribution of cash, securities or other property in respect of its Common Stock, including without limitation any granting of rights or warrants to subscribe for or purchase any capital stock of the Company or any Subsidiary, (ii) authorizes or approves, enters into any agreement contemplating or solicits stockholder approval for any Fundamental Transaction or (iii) authorizes the voluntary dissolution, liquidation or winding up of the affairs of the Company, then the Company shall deliver to the Holder a notice describing the material terms and conditions of such transaction, at least 20 calendar days prior to the applicable record or effective date on which a Person would need to hold Common Stock in order to participate in or vote with respect to such transaction, and the Company will take all steps reasonably necessary in order to insure that the Holder is given the practical opportunity to exercise this

Warrant prior to such time so as to participate in or vote with respect to such transaction; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice.

10. Payment of Exercise Price.

(a) The Holder shall pay the Exercise Price in one of the following manners:

(i) Cash Exercise. The Holder may deliver immediately available funds; or

(ii) Cashless Exercise. At any time after the earlier to occur of the Effectiveness Date (as defined in the Registration Rights Agreement) and the date the registration statement required to be filed pursuant to the Registration Rights Agreement is declared effective by the Securities and Exchange Commission (such earlier date, the "Cashless Exercise Date"), when a registration statement covering the resale of the Warrant Shares and naming the Holder as a selling stockholder thereunder is not then effective, the Holder may satisfy its obligation to pay the Exercise Price through a "cashless exercise," in which event the Company shall issue to the Holder the number of Warrant Shares determined as follows:

$$X = Y [(A-B)/A]$$

where:

X = the number of Warrant Shares to be issued to the Holder.

Y = the number of Warrant Shares with respect to which this Warrant is being exercised.

A = the average of the Closing Prices for the five Trading Days immediately prior to (but not including) the Exercise Date.

B = the Exercise Price.

(b) Notwithstanding anything herein to the contrary, after the Cashless Exercise Date, the Company shall be entitled, upon delivery of to the Holder of a notice no later than the

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30th day preceding any Exercise Date, to require that when the Holder exercise this Warrant on such forthcoming Exercise Date that such exercise occur on a cashless basis pursuant to Section 10(a)(ii) if the requirements for the Holder's cashless exercise thereunder are satisfied on each applicable Exercise Date (the Company may indicate in such notice that the election contained in such notice shall continue for subsequent Exercise Dates until revised).

(c) For purposes of Rule 144 promulgated under the Securities Act of 1933, as amended, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Shares shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Purchase Agreement.

11. Limitation on Exercise. (a) Notwithstanding anything to the contrary contained herein, the number of shares of Common Stock that may be acquired by the Holder upon any exercise of this Warrant (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of Common Stock then beneficially owned by such Holder and its Affiliates and any other Persons whose beneficial ownership of Common Stock would be aggregated with the Holder's for purposes of Section 13(d) of the Exchange Act, does not exceed 4.999% of the total number of issued and outstanding shares of Common Stock (including for such purpose the shares of Common Stock issuable upon such exercise). For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. Each delivery of an Exercise Notice hereunder will constitute a representation by the Holder that it has evaluated the limitation set forth in this paragraph and determined that issuance of the full number of Warrant Shares requested in such Exercise Notice is permitted under this paragraph. The Company will have no obligation to issue shares of Common Stock in excess of the limitation referred to in this Section until such time, if any, as such shares of Common Stock may be issued in compliance with such limitation. By written notice to the Company, the Holder may waive the provisions of this Section, but (i) any such waiver or increase will not be effective until the 61st day after such notice is delivered to the Company, and (ii) any such waiver will apply only to the Holder and not to any other holder of Warrants.

(b) Notwithstanding anything to the contrary contained herein, the number of shares of Common Stock that may be acquired by the Holder upon any exercise of this Warrant (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of Common Stock then beneficially owned by such Holder and its Affiliates and any other Persons whose beneficial ownership of Common Stock would be aggregated with the Holder's for purposes of Section 13(d) of the Exchange Act, does not exceed 9.999% of the total number of issued and outstanding shares of Common Stock (including for such purpose the shares of Common Stock issuable upon such exercise). For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. Each delivery of an Exercise Notice hereunder will constitute a representation by the Holder that it has evaluated the limitation set forth in this paragraph and determined that issuance of the full number of Warrant Shares requested in such Exercise Notice is permitted under this paragraph. The Company will have no obligation to issue shares of Common Stock in excess of the limitation referred to in this Section until such time, if any, as such shares of Common Stock may be issued in compliance with such limitation. By written notice to the Company, the Holder may waive the provisions of this Section, but (i) any such waiver or increase will not be effective until the 61st day after such notice is delivered to the Company, and (ii) any such waiver will apply only to the Holder and not to any other holder of Warrants.

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12. Fractional Shares. The Company shall not be required to issue or cause to be issued fractional Warrant Shares on the exercise of this Warrant. If any fraction of a Warrant Share would, except for the provisions of this Section, be issuable upon exercise of this Warrant, the Company shall pay an amount in cash equal to the average of the Closing Prices of the Common Stock for the five Trading Days immediately prior to (but not including) the Exercise Date multiplied by such fraction; provided that, unless the Holder requests

otherwise, no payment shall be required pursuant to this sentence until the aggregate amount payable exceeds \$1,000, at which time all previously deferred payments shall be made.

13. Notices. Any and all notices or other communications or deliveries hereunder (including without limitation any Exercise Notice) shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section prior to 5:30 p.m. (New York City time) (with confirmation of transmission) on a Trading Day, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) (with confirmation of transmission) on any Trading Day, (iii) the Trading Day following the date of mailing, if sent by nationally recognized overnight courier service (next day delivery specified), or (iv) upon actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be: (i) if to the Company, to 104 Windsor Center Drive, East Windsor, NJ 08520, Facsimile No.: (609) 243-9311, attention Chief Financial Officer, or (ii) if to the Holder, to the address or facsimile number appearing on the Warrant Register or such other address or facsimile number as the Holder may provide to the Company in accordance with this Section.

14. Warrant Agent. First Union National Bank shall serve as warrant agent under this Warrant. Upon 30 days' notice to the Holder, the Company may appoint a new warrant agent. Any corporation into which the Company or any new warrant agent may be merged or any corporation resulting from any consolidation to which the Company or any new warrant agent shall be a party or any corporation to which the Company or any new warrant agent transfers substantially all of its corporate trust or shareholders services business shall be a successor warrant agent under this Warrant without any further act. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed (by first class mail, postage prepaid) to the Holder at the Holder's last address as shown on the Warrant Register.

15. Miscellaneous.

(a) This Warrant shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns. Subject to the preceding sentence, nothing in this Warrant shall be construed to give to any Person other than the Company and the Holder any legal or equitable right, remedy or cause of action under this Warrant. This Warrant may be amended only in writing signed by the Company and the Holder and their successors and assigns.

(b) All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts"). Each party hereto hereby irrevocably submits

to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of this Agreement), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, or such New York Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto (including its affiliates, agents, officers, directors and employees) hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence an action or proceeding to enforce any provisions of this Agreement, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

(c) The headings herein are for convenience only, do not constitute a part of this Warrant and shall not be deemed to limit or affect any of the provisions hereof.

(d) In case any one or more of the provisions of this Warrant shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Warrant shall not in any way be affected or impaired thereby and the parties will attempt in good faith to agree upon a valid and enforceable provision which shall be a commercially reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Warrant.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK,
SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized officer as of the date first indicated above.

i-STAT CORPORATION

By: _____
Name:
Title:

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FORM OF ELECTION TO PURCHASE

(To be executed by the Holder to exercise the right to purchase shares of Common Stock under the foregoing Warrant)

To i-STAT Corporation:

The undersigned hereby irrevocably elects to purchase _____ shares of common stock, \$0.15 par value per share, of i-STAT Corporation (the "Common Stock") and , if such Holder is not utilizing the cashless exercise provisions set forth in this Warrant, encloses herewith \$_____ in cash, certified or official bank check or checks, which sum represents the aggregate Exercise Price (as defined in the Warrant) for the number of shares of Common Stock to which this Form of Election to Purchase relates, together with any applicable taxes payable by the undersigned pursuant to the Warrant.

The Exercise Price applicable to the purchase hereunder equals \$_____.

By its delivery of this Form of Election To Purchase, the Holder represents and warrants to the Company that in giving effect to the exercise evidenced hereby the Holder will not beneficially own in excess of the number of shares of Common Stock (determined in accordance with Section 13(d) of the Securities Exchange Act of 1934) permitted to be owned under Section 11 of this Warrant to which this notice relates.

The undersigned requests that certificates for the shares of Common Stock issuable upon this exercise be issued in the name of

PLEASE INSERT SOCIAL SECURITY OR TAX IDENTIFICATION NUMBER

(Please print name and address)

Dated: []

Name of Holder:

(Print)

(By:)

(Name:)

(Title:)

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

WARRANT SHARES EXERCISE LOG

<TABLE>
<CAPTION>

Date Number of Warrant Number of Warrant Shares Number of

Shares Available to be
Exercised

Exercised

Warrant Shares
Remaining to
be Exercised

<S>

<C>

<C>

<C>

</TABLE>

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FORM OF ASSIGNMENT

[To be completed and signed only upon transfer of Warrant]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right represented by the within Warrant to purchase _____ shares of Common Stock of i-STAT Corporation to which the within Warrant relates and appoints _____ attorney to transfer said right on the books of i-STAT Corporation with full power of substitution in the premises.

Dated: _____, _____

(Signature must conform in all respects
to name of holder as specified on
the face of the Warrant)

Address of Transferee

In the presence of:

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "AGREEMENT") is dated as of August 2, 2001 among i-STAT Corporation, a Delaware corporation (the "COMPANY"), and the purchasers identified on the signature pages hereto (each a "PURCHASER" and collectively the "PURCHASERS").

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "SECURITIES ACT"), and Rule 506 promulgated thereunder, the Company desires to issue and sell to the Purchasers, and the Purchasers, severally and not jointly, desire to purchase from the Company, securities of the Company as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and the Purchasers agree as follows:

ARTICLE I
DEFINITIONS

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, the following terms have the meanings indicated:

"AFFILIATE" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 144. With respect to a Purchaser, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Purchaser will be deemed to be an Affiliate of such Purchaser.

"AGGREGATE PURCHASE PRICE" means the sum of the Closing Date Purchase Amount and the total amount that all Purchasers are required to pay under Section 2.3.

"CERTIFICATE OF DESIGNATIONS" means a certificate of designations of the Preferred Stock, in the form of in Exhibit A.

"CLOSING" means the closing of the purchase and sale of the Securities pursuant to Section 2.1.

"CLOSING DATE" means the date of the Closing.

"CLOSING DATE PURCHASE AMOUNT" means the total amount of money

paid by all Purchasers to or as directed by the Company in accordance with Section 2.2(b)(i).

"CLOSING PRICE" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on an Eligible Market or any other national securities exchange, the closing bid price per share

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of the Common Stock for such date (or the nearest preceding date if there is no price on such date) at 4 P.M. (local time for such Eligible Market or other national securities exchange) on the primary Eligible Market or exchange on which the Common Stock is then listed or quoted; (b) if prices for the Common Stock are then quoted on the OTC Bulletin Board, the closing bid price per share of the Common Stock for such date (or the nearest preceding date) so quoted; (c) if prices for the Common Stock are then reported in the "Pink Sheets" published by the National Quotation Bureau Incorporated (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by a majority-in-interest of the Purchasers.

"COMMISSION" means the Securities and Exchange Commission.

"COMMON SHARES" means the shares of Common Stock which are being purchased by and issued to the Purchasers pursuant to this Agreement.

"COMMON STOCK" means the common stock of the Company, par value \$0.15 per share, or such securities into which such stock shall hereafter be classified.

"COMPANY COUNSEL" means Paul, Hastings, Janofsky & Walker LLP, counsel to the Company.

"EFFECTIVE DATE" means the date that an Underlying Shares Registration Statement is first declared effective by the Commission.

"ELIGIBLE MARKET" means the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market or the Nasdaq SmallCap Market.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"PER SHARE PURCHASE PRICE " means \$9.218.

"PERSON" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision

thereof) or other entity of any kind.

"PREFERRED SHARES" means the shares of Preferred Stock which are being purchased by and issued to the Purchasers pursuant to this Agreement.

"PREFERRED STOCK" means the Series C Convertible Preferred Stock of the Company, which is convertible into shares of Common Stock which shall have the terms set forth in the Certificate of Designations.

"PURCHASER COUNSEL" means Robinson Silverman Pearce Aronsohn & Berman LLP, counsel to the Purchasers.

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"REGISTRATION RIGHTS AGREEMENT" means the Registration Rights Agreement, dated as of the date of this Agreement, among the Company and the Purchasers, in the form of Exhibit B.

"REQUIRED EFFECTIVENESS DATE" means the date on which an Underlying Shares Registration Statement is required to become effective pursuant to the Registration Rights Agreement.

"RULE 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"SECURITIES" means the Common Shares, Preferred Shares, Warrants and Underlying Shares.

"SECURITIES ACT" means the Securities Act of 1933, as amended.

"SUBSIDIARY" means any subsidiary of the Company that is required to be listed in Schedule 3.1(a).

"TRADING DAY" means (a) any day on which the Common Stock is traded on its primary Trading Market, or (b) if the Common Stock is not then listed or quoted on any national securities exchange, market or trading or quotation facility, then a day on which trading occurs on the New York Stock Exchange (or any successor thereto).

"TRADING MARKET" means Nasdaq National Market or any other national securities exchange, market or trading or quotation facility on which the Common Stock is then listed or quoted.

"TRANSACTION DOCUMENTS" means this Agreement, the Securities, the Registration Rights Agreement, the Certificate of Designations, the Transfer Agent Instructions and any other documents or agreements executed in connection with the transactions contemplated hereunder.

"TRANSFER AGENT INSTRUCTIONS" means instructions to the Company's transfer agent, in the form of Exhibit E.

"UNDERLYING SHARES" means the shares of Common Stock issuable upon conversion of the Preferred Shares and upon exercise of the Warrants.

"UNDERLYING SHARES REGISTRATION STATEMENT" means a registration statement meeting the requirements set forth in the Registration Rights Agreement and covering the resale of the Common Shares and Underlying Shares by the Purchasers and their assignees.

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"WARRANTS" means the Common Stock purchase warrants, in the form of Exhibit D, issued to each Purchaser at the Closing and, if applicable, upon a call of the aforementioned warrants in accordance with their terms.

"WARRANT SHARES" means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II PURCHASE AND SALE

2.1 Closing. Subject to the terms and conditions set forth in this Agreement, at the Closing the Company shall issue and sell to the Purchasers, and the Purchasers shall, severally and not jointly, purchase from the Company, the Common Shares, the Preferred Shares and the Warrants set forth next to the Purchasers' names on the investor allocation table attached hereto as Exhibit F (the "INVESTOR ALLOCATION TABLE"). The Closing shall take place at the offices of Purchaser Counsel immediately following the satisfaction or waiver of the conditions set forth in Article V of this Agreement, or at such other location or time as the parties may agree.

2.2 Closing Deliveries.

(a) At the Closing, the Company shall deliver or cause to be delivered to each Purchaser, the following:

(i) one or more stock certificates evidencing the number of Common Shares indicated next to such Purchaser's name in the Investor Allocation Table, registered in the name of such Purchaser;

(ii) one or more stock certificates evidencing a number of Preferred Shares indicated next to such Purchaser's name on the Investor Allocation Table, registered in the name of such Purchaser;

(iii) a Warrant, registered in the name of such

Purchaser, pursuant to which such Purchaser shall have the right to acquire the number of Warrant Shares indicated next to such Purchaser's name on the Investor Allocation Table;

(iv) evidence that the Certificate of Designations has been filed on or prior to the Closing Date with the Secretary of State (or other appropriate office) of Delaware, in form and substance mutually agreed to by the parties;

(v) the legal opinion of Company Counsel, in the form of Exhibit C, executed by such counsel and delivered to the Purchasers;

(vi) a Registration Rights Agreement duly executed by the Company;

(vii) one or more standby letters of credit from, PNC Bank, National Association ("PNC BANK") in form and substance acceptable to the Purchasers (as the

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same may be amended, modified or supplemented from time to time (including, but not limited to, pursuant to Section 2.3(B)(I)) in accordance with their respective terms, the "LETTERS OF CREDIT"); and

(viii) Transfer Agent Instructions executed by the Company and delivered to and acknowledged by First Union National Bank, the Company's transfer agent.

(b) At the Closing, each Purchaser shall deliver or cause to be delivered to the Company, the following:

(i) an amount equal to the sum of (A) the product of the number of Common Shares indicated next to such Purchaser's name on the Investor Allocation Table multiplied by the Per Share Purchase Price and (B) the number of Preferred Shares indicated next to such Purchaser's name on the Investor Allocation Table multiplied by \$1,000, all in United States dollars and in immediately available funds, by wire transfer to an account designated in writing by the Company for such purpose;

(ii) a Registration Rights Agreement duly executed by such Purchaser.

2.3 Post Closing Adjustment. On the 6th Trading Day following the Closing Date, if the average of the 5 VWAP's (as defined in the Certificate of Designations) during the 5 Trading Day period beginning on the Closing Date (the "ADJUSTED PURCHASE PRICE") exceeds the Per Share Purchase Price, then (A) each Purchaser shall, against delivery to it by the Company of the documentation set

forth in Section 2.3(B), deliver to or as directed by the Company an amount, in United States dollars and in immediately available funds, by wire transfer to an account designated in writing for such purpose, equal to the sum of: (I) the product of: (x) the lower of: (i) \$0.782 and (ii) the difference between the Adjusted Purchase Price and the Per Share Purchase Price multiplied by (y) the number of Common Shares issued to such Purchaser on the Closing Date, and (II) the product of: (x) the lower of: (i) \$0.782 and (ii) the difference between the Adjusted Purchase Price and the Per Share Purchase Price multiplied by (y) a number equal to the number of Preferred Shares indicated next to such Purchaser's name on the Investor Allocation Table multiplied by 1,000, and divided by the Per Share Purchase Price, and (B) the Company shall deliver or cause to be delivered to each Purchaser: (I) an amendment to the Letter of Credit, in the form and substance satisfactory to the such Purchaser and (II) a calculation notice indicating the basis for the revision to the Stated Value (as defined in the Certificate of Designations) under the Certificate of Designations.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. The Company hereby makes the following representations and warranties to the Purchasers:

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(a) Subsidiaries. The Company has no subsidiaries other than those listed in Schedule 3.1(a). Except as disclosed in Schedule 3.1(a), the Company owns all of the capital stock of each Subsidiary free and clear of any lien, charge, security interest, encumbrance, right of first refusal or other restriction (collectively, "LIENS"), and all the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights. If the Company has no subsidiaries, then references in the Transaction Documents to the Subsidiaries will be disregarded.

(b) Organization and Qualification. Each of the Company and the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not, individually or in the aggregate: (i) adversely affect the legality, validity or enforceability of any Transaction

Document, (ii) have or result in a material adverse effect on the results of operations, assets, prospects, business or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) adversely impair the Company's ability to perform fully on a timely basis its obligations under any of the Transaction Documents (any of (i), (ii) or (iii)), a "MATERIAL ADVERSE EFFECT").

(c) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company and no further action is required by the Company. Each of the Transaction Documents has been (or upon delivery will be) duly executed by the Company and, when delivered in accordance with the terms hereof and assuming the applicable Transaction Documents constitute the legal, valid and binding agreement of each party other than the Company, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms. Neither the Company nor any Subsidiary is in violation of any of the provisions of its respective certificate or articles of incorporation, by-laws or other organizational or charter documents.

(d) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) subject to obtaining the Required Approvals (as defined below), conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment,

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acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not, individually or in the aggregate, have or result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. Neither the Company nor any Subsidiary is required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or

other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) the filings required under Section 4.8 and the required filing of the Certificate of Designations pursuant to Section 2.2, (ii) the filing with the Commission of the Underlying Shares Registration Statement, (iii) the application(s) to each Trading Market for the listing of the Common Shares and the Underlying Shares for trading thereon in the time and manner required thereby and (iv) applicable Blue Sky filings (collectively, the "REQUIRED APPROVALS").

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens. The Company has on the date hereof and will, at all times while the Preferred Shares and the Warrants are outstanding, maintain an adequate reserve of duly authorized shares of Common Stock, reserved for issuance to the holders of the Preferred Shares and the Warrants, to enable it to perform its conversion, exercise and other obligations under this Agreement, the Certificate of Designation and the Warrants. Such number of reserved and available shares of Common Stock is not less than 4,995,000 (collectively, the "INITIAL MINIMUM"). All such authorized shares of Common Stock shall be duly reserved for issuance to the holders of the Preferred Shares and the Warrants. When issued in accordance with the Certificate of Designation and the Warrants, the Underlying Shares will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all Liens.

(g) Capitalization. The number of shares and type of all authorized, issued and outstanding capital stock of the Company is set forth in Schedule 3.1(g). No securities of the Company are entitled to preemptive or similar rights, and no Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as a result of the purchase and sale of the Securities and except as disclosed in Schedule 3.1(g), there are no outstanding options, warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock, or securities or rights convertible or

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exchangeable into shares of Common Stock. The issue and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under such securities.

(h) SEC Reports; Financial Statements. The Company has filed all reports required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (or such shorter period as the Company was required by law to file such material) (the foregoing materials being collectively referred to herein as the "SEC REPORTS" and, together with the Schedules to this Agreement, the "DISCLOSURE MATERIALS") on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments. All material agreements to which the Company or any Subsidiary is a party or to which the property or assets of the Company or any Subsidiary are subject have been filed as exhibits to the SEC Reports as required under the Exchange Act.

(i) Material Changes. Since the date of the latest audited financial statements included within the SEC Reports, except as specifically disclosed in the SEC Reports: (i) there has been no event, occurrence or development that has had or that could result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting or the identity of its auditors, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, and (v) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company stock option plans.

(j) Litigation. Except as set forth in the SEC Reports, there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective

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properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "ACTION") which: (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, individually or in the aggregate, have or result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. The Company does not have pending before the Commission any request for confidential treatment of information, and the Company does not expect to make any such request prior to the Required Effectiveness Date. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act.

(k) Labor Relations. No material labor problem exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company.

(l) Compliance. Neither the Company nor any Subsidiary: (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters, except in each case as could not, individually or in the aggregate, have or result in a Material Adverse Effect.

(m) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the SEC Reports, except where the failure to possess such permits could not, individually or in the aggregate, have or result in a Material Adverse Effect ("MATERIAL PERMITS"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. Except as set forth in Schedule 3.1(n), the Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them that is material to the business of the Company and the Subsidiaries and good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries. Any real property and

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facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases of which the Company and the Subsidiaries are in compliance.

(o) Patents and Trademarks. The Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, licenses and other similar rights that are necessary or material for use in connection with their respective businesses as described in the SEC Reports and which the failure to so have could have a Material Adverse Effect (collectively, the "INTELLECTUAL PROPERTY RIGHTS"). Neither the Company nor any Subsidiary has received a written notice that the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any Person. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights that could have or result in a Material Adverse Effect.

(p) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged. Neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. Except as set forth in SEC Reports filed at least ten days prior to the date hereof, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial

interest or is an officer, director, trustee or partner.

(r) Solvency. Based on the financial condition of the Company as of the Closing Date: (i) the Company's fair saleable value of its assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature; (ii) the Company's assets do not constitute unreasonably small capital to carry on its business for the current fiscal year as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, and projected capital requirements and capital availability thereof; and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its debt when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt).

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(s) Certain Fees. Except as described in Schedule 3.1(s), no brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by this Agreement. The Company agrees that the Purchasers shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of any Person for fees of the type contemplated by this Section 3.1(s) with the transactions contemplated by this Agreement.

(t) Private Placement. Assuming the accuracy of the representations and warranties of the Purchasers set forth in Sections 3.2(b)-(g), the offer, issuance and sale of the Securities to the Purchasers as contemplated hereby are exempt from the registration requirements of the Securities Act. Neither the Company nor any Person acting on the Company's behalf has sold or offered to sell or solicited any offer to buy the Securities by means of any form of general solicitation or advertising. Neither the Company nor any of its Affiliates nor any person acting on the Company's behalf has, directly or indirectly, at any time within the past six months, made any offer or sale of any security or solicitation of any offer to buy any security under circumstances that would: (i) eliminate the availability of the exemption from registration under Regulation D under the Securities Act in connection with the offer and sale of the Securities as contemplated hereby or (ii) cause the offering of the Securities pursuant to the Transaction Documents to be integrated with prior offerings by the Company for purposes of any applicable law, regulation or shareholder approval provisions, including without limitation under the rules and regulations of any Trading Market. The Company is not, and is not an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(u) Form S-3 Eligibility. The Company is eligible to register its Common Stock for resale by the Purchasers under Form S-3 promulgated under the Securities Act.

(v) Listing and Maintenance Requirements. The Company has not, in the two years preceding the date hereof, received notice (written or oral) from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(w) Registration Rights. No holder of the Company's securities has any demand or piggyback registration rights with respect to such securities and the Company has not agreed to grant such rights to any Person.

(x) Application of Takeover Protections. The Company and its Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's Certificate of Incorporation (or similar charter documents) or the laws of its state of incorporation that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including

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without limitation the Company's issuance of the Securities and the Purchasers' ownership of the Securities.

(y) Disclosure. The Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that constitutes or might constitute material information. The Company understands and confirms that the Purchasers will rely on the foregoing representations in effecting transactions in securities of the Company. All disclosure provided to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Schedules to this Agreement, furnished by or on behalf of the Company are true and correct and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

3.2 Representations and Warranties of the Purchasers. Each Purchaser hereby, for itself and for no other Purchaser, represents and warrants to the Company as follows:

(a) Organization; Authority. If such Purchaser is an entity, such Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations thereunder. If such Purchaser is an entity, the purchase by such Purchaser of the Securities hereunder has been duly authorized by all necessary action on the part of such Purchaser. Each of this Agreement and the Registration Rights Agreement has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms. If such Purchaser is a natural person, such Purchaser is of a legal age and capable to enter into and execute this Agreement and the Registration Rights Agreement.

(b) Investment Intent. Such Purchaser is acquiring the Securities as principal for its own account for investment purposes only and not with a view to or for distributing or reselling such Securities or any part thereof, without prejudice, however, to such Purchaser's right, subject to the provisions of this Agreement, the Registration Rights Agreement and the Warrants, at all times to sell or otherwise dispose of all or any part of such Securities pursuant to an effective registration statement under the Securities Act or under an exemption from such registration and in compliance with applicable federal and state securities laws. Nothing contained herein shall be deemed a representation or warranty by such Purchaser to hold Securities for any amount of time. Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business. Such Purchaser does not have any agreement or understanding, directly or indirectly, with any Person to distribute any of the Securities.

(c) Purchaser Status. At the time such Purchaser was offered the Common Shares, the Preferred Shares and its respective Warrants, it was, and at the date hereof it is, and at each exercise date under its respective Warrants, it will be, an "accredited investor" as defined in Rule 501(a) under the Securities Act. Such Purchaser has not been formed solely for the purpose of acquiring the Securities.

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(d) Experience of such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment.

(e) Ability of such Purchaser to Bear Risk of Investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(f) Access to Information. Such Purchaser acknowledges that it has reviewed the Disclosure Materials and has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and risks of investing in the Securities; (ii) access to information about the Company and the Subsidiaries and their respective financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the investment. Neither such inquiries nor any other investigation conducted by or on behalf of such Purchaser or its representatives or counsel shall modify, amend or affect such Purchaser's right to rely on the truth, accuracy and completeness of the Disclosure Materials and the Company's representations and warranties contained in the Transaction Documents.

(g) General Solicitation. To the best of its knowledge, such Purchaser is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(h) Reliance. Such Purchaser understands and acknowledges that: (i) the Securities are being offered and sold to it without registration under the Securities Act in a private placement that is exempt from the registration provisions of the Securities Act and (ii) the availability of such exemption, depends in part on, and the Company will rely upon the accuracy and truthfulness of, the foregoing representations and such Purchaser hereby consents to such reliance.

(i) Beneficial Ownership. Such Purchaser (other than John Hancock Small Cap Value Fund and any Affiliate thereof), does not on the Closing Date (after giving effect to the consummation of the transactions contemplated hereunder), beneficially own (as determined in accordance with Section 13(d) of the Exchange Act) in excess of 14.999% of the shares of Common Stock outstanding on the Closing Date, assuming enforcement of all exercise and conversion limitations set forth in the applicable Transaction Documents.

The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Section 3.2.

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4.1 Transfer Restrictions.

(a) Securities may only be disposed of pursuant to an effective registration statement under the Securities Act, to the Company or pursuant to an available exemption from or in a transaction not subject to the registration requirements of the Securities Act, and in compliance with any applicable state securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or to the Company, except as otherwise set forth herein, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. Notwithstanding the foregoing, the Company hereby consents to and agrees to register on the books of the Company and with any transfer agent for the securities of the Company, without any such legal opinion, any transfer of Securities by a Purchaser to an Affiliate of such Purchaser, provided that the transferee certifies to the Company that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act and that it is acquiring the Securities solely for investment purposes (subject to the qualifications hereof). As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of a Purchaser under this Agreement and the Registration Rights Agreement.

(b) The Purchasers agree to the imprinting, so long as is required by this Section 4.1(b), of the following legend on the Securities:

NEITHER THESE SECURITIES [NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE [CONVERTIBLE] [EXERCISABLE]] HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS, AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

None of the Securities shall contain the legend set forth above or any other legend (other than as required pursuant to the Stockholder Protection Plan, dated as of June 26, 1995 between the Company and First Fidelity Bank, National Association, as rights agent (the "PLAN")): (i) while a registration statement (including any Underlying Shares and Common Shares) is effective under the Securities Act to cover the resale of such security, or (ii) if Rule

144(k) may be utilized by the seller of such security or (iii) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the Staff of the Commission). The Company shall cause its counsel to issue the legal opinion included in the Transfer Agent Instructions to the Company's transfer agent on the Effective Date. If any Warrant is exercised at a time when there is an effective registration statement to cover the resale of the Warrant Shares issuable in respect thereto, such Warrant Shares shall be issued without legends. The Company agrees that following the Effective Date or at such time as such legend is no longer required under this Section 4.1(b), it will, no later than three Trading Days following the delivery by a Purchaser to the Company or the Company's transfer agent of a certificate representing Securities issued with a restrictive legend, deliver or cause to be delivered to such Purchaser a certificate representing such Securities that is free from all restrictive and other legends. The Company may not make any notation on its records or give instructions to any transfer agent of the Company that enlarge the restrictions on transfer set forth in this Section.

4.2 Acknowledgment of Dilution. The Company acknowledges that the issuance and conversion and exercise (as applicable) of the Securities will result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligation to issue the Securities pursuant to the Transaction Documents is unconditional and absolute, regardless of the effect of any such dilution.

4.3 Furnishing of Information. As long as any Purchaser owns Securities, the Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act. Upon the request of any such Person, the Company shall deliver to such Person a written certification of a duly authorized officer as to whether it has complied with the preceding sentence. As long as any Purchaser owns Securities, if the Company is not required to file reports pursuant to such laws, it will prepare and furnish to the Purchasers and make publicly available in accordance with Rule 144(c) such information as is required for the Purchasers to sell the Securities under Rule 144. The Company further covenants that it will take such further action as any holder of Securities may reasonably request, all to the extent required from time to time to enable such Person to sell such Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144.

4.4 Integration. The Company shall not, and shall use its best efforts to ensure that no Affiliate of the Company shall, sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Purchasers.

4.5 Reservation and Listing of Securities. The Company shall maintain a

reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may be required to fulfill its obligations in full under the Transaction Documents which number shall not be less than the Initial Minimum. The Company shall: (i) in the time and manner required by each Trading Market, prepare and file with such

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Trading Market an additional shares listing application covering a number of shares of Common Stock equal to no less than the sum of the Common Shares and the Initial Minimum, (ii) take all steps necessary to cause such shares to be approved for listing on each Trading Market as soon as possible thereafter, (iii) provide to the Purchasers evidence of such listing, and (iv) maintain the listing of such shares on each such Trading Market or another Eligible Market.

4.6 Conversion and Exercise Procedures. The Transfer Agent Instructions and Conversion Notice, as defined in the Certificate of Designations, set forth the totality of the procedures with respect to the conversion of the Preferred Shares. The Transfer Agent Instructions and Form of Election to Purchase under the Warrants set forth the totality of the procedures with respect to the exercise of the Warrants. No additional legal opinion or other information or instructions shall be necessary to enable the Purchasers to convert their Preferred Shares or exercise their Warrants. The Company shall honor conversions of the Preferred Shares and exercises of the Warrants and shall deliver Underlying Shares in accordance with the terms, conditions and time periods set forth in the Transaction Documents.

4.7 Right of First Refusal.

(a) The Company will not, directly or indirectly, offer, sell, grant any option to purchase, or otherwise dispose of (or announce any offer, sale, grant or any option to purchase or other disposition of) any of its or the Subsidiaries' equity or equity equivalent securities, including without limitation any debt, preferred stock or other instrument or security that is, at any time during its life and under any circumstances, convertible into or exchangeable for Common Stock (any such offer, sale, grant, disposition or announcement being referred to as a "SUBSEQUENT PLACEMENT"), from the date hereof until the first year anniversary of the date hereof, unless: (i) the Company delivers to each of the Purchasers a written notice (the "SUBSEQUENT PLACEMENT NOTICE") of its intention to effect such Subsequent Placement, which Subsequent Placement Notice shall describe in reasonable detail the proposed terms of such Subsequent Placement, the amount of proceeds intended to be raised thereunder, the Person with whom such Subsequent Placement is proposed to be effected, and attached to which shall be a term sheet or similar document relating thereto and (ii) such Purchaser shall not have notified the Company by 5:30 p.m. (New York City time) on the fifth Trading Day after its receipt of the Subsequent Placement Notice of its willingness to provide (or to cause its designee to provide), subject to completion of mutually acceptable documentation, financing to the Company on the same terms set forth in the

Subsequent Placement Notice. The Company and the Purchasers shall use their commercially reasonable efforts to complete such mutually acceptable documentation by the 30th day following the date of the delivery of the Subsequent Placement Notice. If the Purchasers shall fail to so notify the Company of their willingness to participate in the full Subsequent Placement, the Company may effect such Subsequent Placement on the terms and to the Persons set forth in the Subsequent Placement Notice; provided that the Company must provide the Purchasers with a second Subsequent Placement Notice, and the Purchasers will again have the right of first refusal set forth above in this paragraph (b), if the Subsequent Placement subject to the initial Subsequent Placement Notice is not consummated for any reason on the terms set forth in such Subsequent Placement Notice within 60 Trading Days after the date of the initial Subsequent Placement Notice with the Person identified in the Subsequent Placement Notice. If the Purchasers indicate a willingness to provide financing in

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excess of the amount set forth in the Subsequent Placement Notice, then each Purchaser will be entitled to provide financing pursuant to such Subsequent Placement Notice up to an amount equal to such Purchaser's pro rata portion of the aggregate purchase price paid for the Securities under this Agreement, but the Company shall not be required to accept financing from the Purchasers in an amount in excess of the amount set forth in the Subsequent Placement Notice.

(b) Notwithstanding the foregoing, the provisions of Section 4.7(a) shall not apply to a Subsequent Placement in which each of the following conditions is true: (i) such Subsequent Placement occurs on or after the 120th day following the Closing Date, (ii) such Subsequent Placement is exclusively an offer and sale of Common Stock at a purchase price per share which is equal to or greater than each of the Per Share Purchase Price and the Conversion Price (as defined in the Certificate of Designations) determined on the 121st day following the Closing Date, (iii) such Subsequent Placement is not subject to a collar or pricing reset mechanism of any kind, and (iv) the total warrant coverage for such Subsequent Placement, at such time or any later time, enables the holder or holders thereof to purchase a number of shares of Common Stock no greater than 35% of the quotient obtained by dividing the aggregate purchase price for such Subsequent Placement by the purchase price per share of Common Stock issuable pursuant to such Subsequent Placement, provided, that, in case of any Subsequent Placement meeting such conditions, each Purchaser shall have the right (the "MAINTENANCE RIGHT") to participate in such Subsequent Placement in order to maintain its percentage interest in Total Voting Power (as defined below) of the Company beneficially owned (as determined by Rule 13d-3 of the Exchange Act) by such Purchaser immediately prior to the delivery of the Subsequent Placement. In the event the Maintenance Right is triggered, the Company shall provide the Purchasers with a written notice, containing the same information as the Subsequent Placement Notice. Each Purchaser shall have five Trading Days to exercise its Maintenance Right by delivering to the Company a written notice of its intention to so exercise. For purposes hereof, "Total

Voting Power" means the total number of votes which may be cast in the election of directors of the Company at any meeting of stockholders of the Company if all securities entitled to vote in the election of directors of the Company were present and voted at such meeting.

(c) Except for: (i) Registrable Securities (as defined in the Registration Rights Agreement), and (ii) Common Stock permitted to be issued pursuant to Section 4.7(d), the Company shall not, without the prior written consent of the Purchasers: (A) prior to the Effective Date, file a registration statement with the Commission with respect to any securities of the Company or the Subsidiaries or (B) prior to the 130th day following the Closing Date, cause a registration statement permitted to be filed with the Commission pursuant to the terms hereof to be declared effective by the Commission.

(d) The restrictions contained in paragraphs (a) and (c) of this Section 4.7 shall not apply to: (i) the granting of shares of Common Stock, restricted stock awards or similar equity incentive awards to employees, officers and directors of the Company pursuant to any stock option plan duly adopted by the Company or to the issuance of Common Stock upon exercise of such options, (ii) the issuance of options, warrants, stock appreciation rights or shares of Common Stock to bona fide consultants of the Company in payment of consulting fees of up to an aggregate of \$500,000 in any twelve month period based upon the applicable market price

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of the Common Stock, (iii) the issuance of warrants or shares of Common Stock in connection with bona fide acquisitions by the Company, (iv) the sale of shares of Common Stock to Abbott Laboratories, (v) the issuance of shares of Common Stock upon exercise of any warrant or option permitted to be issued pursuant to this Section 4.7(d), or (vi) securities issued in connection a public offering for an aggregate purchase price in excess of \$50,000,000 without a discount to the market price of the Common Stock (which shall not include equity lines of credit or similar transactions).

4.8 Securities Laws Disclosure; Publicity. The Company shall: (i) on the Closing Date, issue a press release acceptable to the Purchasers disclosing the transactions contemplated hereby and (ii) make such other filings and notices relating to the transactions contemplated hereby in the manner and time required by the Commission. The Company shall, at least two Trading Days prior to the filing or dissemination of any disclosure required by this paragraph, provide a copy thereof to the Purchasers for their review. The Company and the Purchasers shall consult with each other in issuing any press releases or otherwise making public statements or filings and other communications with the Commission or any regulatory agency or Trading Market with respect to the transactions contemplated hereby, and neither party shall issue any such press release or otherwise make any such public statement, filing or other communication without the prior consent of the other, except if such disclosure is required by law, in which case the disclosing party shall promptly provide

the other party with prior notice of such public statement, filing or other communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency or Trading Market, without the prior written consent of such Purchaser, except to the extent such disclosure (but not any disclosure as to the controlling Persons thereof) is required by law or Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure.

4.9 Use of Proceeds. Except in connection with redemptions of Preferred Shares, the Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and not for the satisfaction of any portion of the Company's debt (other than payment of trade payables and accrued expenses in the ordinary course of the Company's business and prior practices), to redeem any Company equity or equity-equivalent securities or to settle in any outstanding litigation, except that the Company may utilize up to \$5,000,000 of the net proceeds from the sale of the Securities hereunder to settle such outstanding litigation. In order to fulfill its redemption obligations pursuant to the Certificate of Designations, the Company shall be entitled to fund a cash collateral account in favor of PNC Bank to support the Letters of Credit which will support the redemption obligations of the Company pursuant to the Certificate of Designations. The Company shall also be entitled to use the net proceeds of the aforementioned cash collateral account to satisfy its obligations under the Letters of Credit.

4.10 Indemnification of the Purchasers. The Company will indemnify and hold the Purchasers and their directors, officers, shareholders, partners, employees and agents (each, a "PURCHASER PARTY") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to any misrepresentation, breach or

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inaccuracy, or any allegation by a third party that, if true, would constitute a breach or inaccuracy, of any of the representations and warranties made by the Company in this Agreement or in the other Transaction Documents. The Company will reimburse such Purchaser Party for its reasonable legal and other expenses (including the cost of any investigation, preparation and travel in connection therewith) incurred in connection therewith, as such expenses are incurred.

4.11 Indemnification of the Company. Each Purchaser will, severally and not jointly, indemnify and hold the Company and its directors, officers, shareholders, partners, employees and agents (each, a "COMPANY PARTY") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of

investigation that any such Company Party may suffer or incur as a result of or relating to any misrepresentation, breach or inaccuracy, or any allegation by a third party that, if true, would constitute a breach or inaccuracy of any of the representations or warranties made by such Purchaser in this Agreement or in the other Transaction Documents. Such Purchaser will, severally and not jointly, reimburse such Company Party for its reasonable legal and other expenses (including the cost of any investigation, preparation and travel in connection therewith) incurred in connection therewith, as such expenses are incurred.

4.12 Shareholders Rights Plan. No claim will be made or enforced by the Company that any Purchaser is an "Acquiring Person" under the Plan or in any way could be deemed to trigger the provisions of the Plan by virtue of receiving Securities under the Transaction Documents. Each Purchaser other than those who are "Institutional Investors" under the Plan severally agree not to acquire in excess of 14.99% of the shares of Common Stock on any date while such Purchaser holds Warrants or Preferred Shares.

4.13 Disclosure. The Company confirms that as long as any Purchaser owns Securities, neither the Company nor any other Person acting on its behalf will provide any of such Purchaser or its agents or counsel with any information that constitutes or might constitute material non-public information, unless such Purchaser shall have agreed to execute a written agreement regarding the confidentiality and use of such information. The Company understands and confirms that the Purchasers shall be relying on the foregoing representations in effecting transactions in securities of the Company.

4.14 Certain Trading Restrictions. Each Purchaser agrees that neither it nor its Affiliates will enter into any Short Sales (as hereinafter defined) prior to the first year anniversary of the Closing Date. For purposes hereof, a "Short Sale" by a Purchaser shall mean a sale of Common Stock by such Purchaser that is marked as a short sale and that is made at a time when there is no equivalent offsetting long position in the Common Stock held by such Purchaser. For purposes of determining whether there is an equivalent offsetting long position in the Common Stock held by a Purchaser, on any date of computation, notwithstanding anything to the contrary contained in the Transaction Documents, the sum of: (i) all Warrant Shares issuable upon exercise in full of the Warrants issued to such Purchaser and (ii) all Underlying Shares issuable upon conversion in full of all the Preferred Shares issued to such Purchaser at a

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conversion price equal to the Target Price (as defined in the Certificate of Designation), shall be deemed to be held long by such Purchaser.

ARTICLE V

CONDITIONS TO CLOSING

5.1 Conditions Precedent to the Obligations of the Purchasers. The

obligation of each Purchaser to acquire Securities at the Closing is subject to the satisfaction or waiver by such Purchaser, at or before the Closing, of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company contained herein shall be true and correct in all material respects as of the date when made and as of the Closing as though made on and as of such date (except for representations and warranties that speak of a specific date, which need only be true and correct as of such date);

(b) Performance. The Company and each other Purchaser shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by it at or prior to the Closing;

(c) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction that prohibits the consummation of any of the transactions contemplated by the Transaction Documents;

(d) Adverse Changes. Since the date of execution of this Agreement, no event or series of events shall have occurred that reasonably would be expected to have or result in a Material Adverse Effect;

(e) No Suspensions of Trading in Common Stock; Listing. Trading in the Common Stock shall not have been suspended by the Commission or any Trading Market (except for any suspensions of trading of not more than one Trading Day solely to permit dissemination of material information regarding the Company) at any time since the date of execution of this Agreement, and the Common Stock shall have been at all times since such date listed for trading on an Eligible Market; and

(f) Standby Letters of Credit. The Company shall have obtained the Letters of Credit in agreed form.

5.2 Conditions Precedent to the Obligations of the Company. The obligation of the Company to sell Securities at the Closing is subject to the satisfaction or waiver by the Company, at or before the Closing, of each of the following conditions:

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(a) Representations and Warranties. The representations and warranties of the Purchasers contained herein shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made on and as of such date; and

(b) No Injunction. No statute, rule, regulation, executive

order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction that prohibits the consummation of any of the transactions contemplated by the Transaction Documents.

5.3 Termination. The Purchasers shall have the right to terminate this Agreement, by written notice to the Company, at any time after August 10, 2001, if the Company has not satisfied the conditions set forth in Section 5.1.

ARTICLE VI MISCELLANEOUS

6.1 Fees and Expenses. At the Closing, the Company shall reimburse Pine Ridge Financial Inc. ("Pine Ridge") for its legal fees and expenses incurred in connection with the preparation and negotiation of the Transaction Documents by paying to Pine Ridge (or, at Pine Ridge's election, directly to Purchaser Counsel), an aggregate of \$30,000. In lieu of the payment required by the immediately preceding sentence, Pine Ridge shall retain the amount of such payment instead of delivering such amount to the Company at the Closing. Except as expressly set forth in the Transaction Documents to the contrary, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all transfer agent fees, stamp taxes and other taxes and duties levied in connection with the issuance of the Securities.

6.2 Entire Agreement. The Transaction Documents, together with the Exhibits and Schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

6.3 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section prior to 5:30 p.m. (New York City time) (with confirmation of transmission) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) (with confirmation of transmission) on any Trading Day, (c) the Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service (next day service specified), or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as follows:

If to the Company:

i-STAT Corporation
104 Windsor Center Drive
East Windsor, NJ 08520
Facsimile No.: (609) 243-9311
Attn: Chief Financial Officer

With a copy to:

Paul, Hastings, Janofsky & Walker
LLP
1055 Washington Boulevard
Stamford, CT 06901
Facsimile No.: (203) 359-3031
Attn: Esteban A. Ferrer, Esq.

If to a Purchaser:

To the address set forth under such
Purchaser's name on the signature
pages hereof;

or such other address as may be designated in writing hereafter, in the same manner, by such Person.

6.4 Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and each of the Purchasers or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

6.5 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

6.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Purchasers.

6.7 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except that each Related Person is an intended third party beneficiary of Sections 4.10 and 4.11 and may enforce the provisions of such Sections.

6.8 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each

party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective

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affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of the any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or inconvenient venue for such proceeding. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto (including its affiliates, agents, officers, directors and employees) hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence an action or proceeding to enforce any provisions of a Transaction Document, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

6.9 Survival. The representations and warranties contained herein shall survive the Closing and the delivery, exercise and/or conversion of the Securities, as applicable, until the third year anniversary of the Closing Date. The agreements and covenants shall survive the Closing and the delivery, exercise and/or conversion of the Securities, as applicable, in accordance with their terms.

6.10 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page

were an original thereof.

6.11 Severability. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

6.12 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that

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monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agrees to waive in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

6.13 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any Transaction Document, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Document. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGES FOLLOW]

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IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

I-STAT CORPORATION

By: _____

Name:

Title:

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGES FOR PURCHASERS FOLLOW]

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PINE RIDGE FINANCIAL INC.

By: _____

Name:

Title:

Address for Notice:
Pine Ridge Financial Inc.
c/o Cavallo Capital Corp.
660 Madison Avenue
New York, NY 10022
Facsimile No.: 212-651-9010
Attn: Avi Vigder and Eldad Gal

With copies to: Robinson Silverman Pearce Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Facsimile No.: (212) 541-4630 and (212) 541-1432
Attn: Eric L. Cohen, Esq.

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MONTROSE INVESTMENTS LTD.

By: _____

Name:

Title:

Address for Notice:
Montrose Investments Ltd.
c/o HBK Investments L.P.
300 Crescent Court, Suite 700
Dallas, TX 75201
Facsimile No.: 214-758-1207
Attn: Jeff Estes and Kim Rozman

With copies to: Robinson Silverman Pearce Aronsohn & Berman LLP
1290 Avenue of the Americas

New York, NY 10104
Facsimile No.: (212) 541-4630 and (212) 541-1432
Attn: Eric L. Cohen

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DEEPHAVEN PRIVATE PLACEMENT TRADING LTD.

By: _____

Name:

Title:

Address for Notice:
c/o Deephaven Capital Management LLC
130 Cheshire Lane
Minnentonka, MN 55305
Facsimile No.: 952-249-5320
Attn: Bruce Lieberman

With copies to:

Robinson Silverman Pearce Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Facsimile No.: (212) 541-4630 and (212) 541-1432
Attn: Eric L. Cohen

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KESSLER FAMILY LIMITED PARTNERSHIP

By: _____

Name:

Title:

Address for Notice:
c/o Deephaven Capital Management LLC
130 Cheshire Lane
Minnentonka, MN 55305
Facsimile No.: 952-249-5320
Attn: Bruce Lieberman

With copies to:

Robinson Silverman Pearce Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Facsimile No.: (212) 541-4630 and (212) 541-1432
Attn: Eric L. Cohen

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IRVIN KESSLER

Address for Notice:
c/o Deephaven Capital Management LLC
130 Cheshire Lane
Minnentonka, MN 55305
Facsimile No.: 952-249-5320
Attn: Bruce Lieberman

With copies to: Robinson Silverman Pearce Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Facsimile No.: (212) 541-4630 and (212) 541-1432
Attn: Eric L. Cohen

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HARE & CO. F/B/O JOHN HANCOCK SMALL CAP VALUE FUND

By: _____

Name:

Title:

Address for Notice (both required):
Hare & Co. f/b/o John Hancock Small Cap Value Fund
c/o Bank of New York Securities Department

P.O. Box 11,203
New York, NY 10249
Facsimile No.: 617-330-6583

Hare & Co. f/b/o John Hancock Small Cap Value Fund
c/o John Hancock Advisers, Inc.
Attn: Investment Operations, 4th Floor
Private Placement Corporate Actions
101 Huntington Avenue

Boston, Ma 02199-7603
Facsimile No.: 617-375-4808

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Exhibits:

- A Form of Certificate of Designation
- B Form of Registration Rights Agreement
- C Form of Opinion of Company Counsel
- D Form of Warrant
- E Form of Transfer Agent Instructions
- F Investor purchase price allocation

Schedules:

- 3.1(a) Subsidiaries
- 3.1(g) Capitalization
- 3.1(n) Title to Assets
- 3.1(s) Commissions