

NOVOSTE CORP /FL/  
Form PREM14A  
July 15, 2005  
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## SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

- Preliminary Proxy Statement
- Confidential For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Soliciting Material Pursuant to Rule 14a-12

### NOVOSTE CORPORATION

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No Fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

**Common stock and Series A preferred stock of ONI Medical Systems, Inc. ( ONI ) to be acquired by Novoste Corporation ( Novoste )  
in exchange for shares of Novoste s common stock**

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(2) Aggregate number of securities to which transaction applies:

**5,929,806 shares of ONI s common stock, options and warrants to purchase 3,144,940 shares of ONI s common stock and 9,147,285 shares of ONI s Series A preferred stock to be acquired by Novoste in exchange for up to 33,055,560 shares of Novoste s common stock pursuant to the merger of a wholly owned subsidiary of Novoste with and into ONI**

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

**one third of \$0.01, which is one third of the par value per share of each of the ONI common stock and the ONI Series A preferred stock**

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(4) Proposed maximum aggregate value of transaction: \$60,741

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(5) Total fee paid: \$8.00

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.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No. :

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(3) Filing Party:

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(4) Date Filed:

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**Novoste Corporation**

**4350 International Boulevard**

**Norcross, Georgia 30093**

**(770) 717-0904**

**July , 2005**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Dear Shareholder:

You are cordially invited to attend a special meeting of shareholders in lieu of an annual meeting to be held at 8:30 a.m., local time, on [ ], 2005 at the Atlanta Marriott Gwinnett Place, 1775 Pleasant Hill Road, Duluth, Georgia.

At the special meeting, among other things, you will be asked to approve (a) the issuance of shares of our common stock to the shareholders of ONI Medical Systems, Inc., a privately held Delaware corporation, pursuant to the terms of an agreement and plan of merger that we have entered into with ONI under which ONI will become our wholly owned subsidiary and (b) an amendment to our articles of incorporation to increase the authorized number of shares of our common stock from 25,000,000 to 75,000,000.

After careful consideration, our board of directors has unanimously (with one director recused from the matters) determined that the merger with ONI and the related merger agreement are advisable, fair to and in the best interests of our shareholders, has approved the merger agreement, the share issuance and the two amendments to our articles of incorporation described in the accompanying proxy statement, and has recommended that you vote for these proposals. Our board believes that, although the merger with ONI represents a complete change in the nature of our business, the merger affords our existing shareholders an opportunity for future value that the board believes is currently unavailable given our existing technology. ONI develops, manufactures and markets dedicated-purpose magnetic resonance imaging systems, which, if the merger is consummated, will become the business of Novoste. Our financial advisor, Asanté Partners LLC, has delivered to the board of directors an opinion that the merger consideration to be paid by Novoste in the transaction is fair to us from a financial point of view. We anticipate that completion of the merger will result in the current holders of ONI's equity securities owning a majority of our common stock.

The accompanying proxy statement provides a detailed description of the proposed merger, and a copy of the merger agreement is attached to the proxy statement as *Annex A*. In addition, the proxy statement provides you with important information regarding our board of directors and the other proposals that require your vote. I urge you to read the proxy statement materials in their entirety and consider them carefully. Please pay particular attention to the Risk Factors beginning on page [ ] for a discussion of the risks related to the merger.

It is important that your shares be represented at the special meeting, regardless of the size of your holdings. Accordingly, whether or not you expect to attend the special meeting, I urge you to vote promptly by returning the enclosed proxy card. You may revoke your proxy at any time

before it has been voted.

I look forward to seeing you on \_\_\_\_\_, 2005.

Sincerely,

Alfred J. Novak

President and Chief Executive Officer

**The accompanying proxy statement is first being mailed or  
delivered to shareholders on or about \_\_\_\_\_, 2005.**

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**Novoste Corporation**

**4350 International Boulevard**

**Norcross, Georgia 30093**

**(770) 717-0904**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**IN LIEU OF AN ANNUAL MEETING**

**TO BE HELD ON [            ], 2005**

NOTICE IS HEREBY GIVEN that on [            ], 2005, Novoste Corporation will hold a special meeting of shareholders in lieu of an annual meeting at the Atlanta Marriott Gwinnett Place, 1775 Pleasant Hill Road, Duluth, Georgia. The meeting will begin at 8:30 a.m., local time.

At the special meeting, we will consider:

1. The issuance of shares of our common stock, par value \$0.01 per share, to the holders of equity securities of ONI Medical Systems, Inc., a privately held Delaware corporation, pursuant to the terms of an Agreement and Plan of Merger by and among us, ONIA Acquisition Corp. and ONI, dated May 18, 2005, under which ONI will become our wholly owned subsidiary;
2. An amendment to our amended and restated articles of incorporation to increase the authorized number of shares of our common stock from 25,000,000 to 75,000,000;
3. An amendment to our amended and restated articles of incorporation to change our name from Novoste Corporation to ONI Medical Systems, Inc.;
4. The election of two directors to our board of directors;
5. A proposal to adjourn the meeting to permit further solicitation of proxies; and
6. Any other business properly presented at the special meeting or any postponements or adjournments thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice.

Pursuant to our by-laws, our board of directors has fixed [            ], 2005 as the record date for the determination of shareholders entitled to notice of and to vote at the special meeting and at all postponements or adjournments thereof. Only shareholders of record at the close of

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business on that date and eligible to vote will be entitled to vote at the special meeting and any postponements or adjournments thereof. A list of all shareholders entitled to vote at the special meeting will be open for examination by shareholders for any purpose related to the special meeting during ordinary business hours for a period of ten (10) days before the special meeting at our offices, located at 4350 International Boulevard, Norcross, Georgia, 30093.

By Order of the Board of Directors,

Daniel G. Hall

Corporate Secretary

Norcross, Georgia

[        ], 2005

***Whether or not you plan to attend the special meeting, please complete and return the enclosed proxy card. If you sign and return your proxy card without specifying a choice, your shares will be voted in accordance with the recommendations of our board of directors. You may, if you wish, revoke your proxy at any time before it is voted by filing with the Corporate Secretary of Novoste a written revocation or a duly executed proxy bearing a later date, or by attending the special meeting and voting in person.***

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Annex B	Opinion of Asanté Partners LLC
Annex C	Novoste Share Increase Amendment
Annex D	Novoste Name Change Amendment

ONI (and Design) and OrthOne are registered trademarks of ONI Medical Systems, Inc. ONI Medical Systems, Inc. is a trademark of ONI Medical Systems, Inc.

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The following are some of the questions that you, as a shareholder of Novoste, may have and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this proxy statement, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this proxy statement. We urge you to read this proxy statement in its entirety before making any decision as to your Novoste common stock.

### **QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER**

**Q: Why am I receiving this proxy statement?**

A: You are receiving this proxy statement for a special meeting of shareholders for two reasons. First, we have agreed to a business combination with ONI pursuant to the terms of the merger agreement that is described in this proxy statement. A copy of the merger agreement is attached to this proxy statement as *Annex A*. Second, the special meeting also is being held in lieu of our 2005 annual meeting of shareholders and, as such, you will be asked to elect two Class III directors and we will conduct at the special meeting such other business as would otherwise be conducted at our annual meeting.

In order to complete the merger, our shareholders must vote to approve (1) the issuance of our common stock pursuant to the merger agreement, (2) an amendment to our articles of incorporation to increase the number of authorized shares of our common stock, and (3) an amendment to our articles of incorporation to change our name from Novoste Corporation to ONI Medical Systems, Inc.

This proxy statement contains important information about the merger, the issuance of our common stock pursuant to the merger agreement, the proposed amendments to our articles of incorporation and the election of two class III directors. You should read it carefully.

Your vote is important. We encourage you to vote as soon as possible.

**Q: Has the Novoste board of directors made any recommendation regarding how to vote?**

A: Yes. Our board of directors has unanimously (with one director recused from the matters) determined that the merger with ONI and the related merger agreement are advisable, fair to and in the best interests of our shareholders, and has recommended that you vote in favor of the share issuance and the two amendments to our articles of incorporation. The reasons why our board recommends these proposals are discussed in greater detail in the section entitled *Approval of Issuance of Shares in the ONI Merger Recommendation of our Board of Directors and Reasons for the Merger*.

Our full board of directors has further unanimously approved, and recommended to you, the election of two Class III directors and the approval of the adjournment proposal.

**Q: Why is Novoste proposing the merger with ONI?**

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- A: In February 2005, we announced that our board of directors had determined that our vascular brachytherapy, or VBT, business, our only business line, was no longer viable and, as a result, the board had authorized a staged wind-down of the business. The board of directors also authorized the sale of the VBT business, which sale process is currently ongoing. The board determined that this decision was necessary in order to preserve the company's cash resources. While the sale process continues, Novoste will continue to actively sell its VBT products to its physician customers and accept new contracts. The board also announced in February 2005 that it was seeking new product opportunities, as well as a merger, business combination or other disposition of our business or assets. The merger agreement with ONI is the culmination of those efforts. We believe that the combination of Novoste and ONI affords our existing shareholders an

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opportunity for future value that in the board's opinion is currently unavailable given our existing technology. ONI is engaged in the development, manufacturing and marketing of dedicated-purpose magnetic resonance imaging systems, which, if the merger is completed, will become the business of Novoste.

### **Q: When and where is the special meeting of shareholders and who is entitled to vote?**

A: The special meeting of shareholders will take place at 8:30 a.m., local time, on [ ], 2005, at the Atlanta Marriott Gwinnett Place, 1775 Pleasant Hill Road, Duluth, Georgia. Holders of record of our common stock as of the close of business on [ ], 2005 are entitled to vote at the special meeting.

### **Q: What shareholder approvals are required to approve the share issuance in the ONI merger and the two amendments to Novoste's articles of incorporation?**

A: The affirmative vote of a majority of the total votes cast is required to approve the share issuance in the ONI merger. The approval of each of the two amendments to our articles of incorporation requires that the number of votes cast by shareholders at the special meeting in favor of the proposal exceed the number of votes cast against the proposal.

### **Q: What will happen in the ONI merger?**

A: Before entering into the merger agreement, we formed ONIA Acquisition Corp., which we refer to as Merger Sub. Merger Sub will merge with and into ONI, and ONI will continue as the surviving company. The surviving company will be our wholly owned subsidiary. Upon completion of the merger, each outstanding share of ONI common and preferred stock will be canceled and converted into the right to receive the number of shares of our common stock determined in accordance with the formulas set forth in the merger agreement. In addition, all outstanding and unexercised options and warrants to purchase shares of ONI equity securities will be assumed by us and be converted and become options and warrants to acquire shares of our common stock, also determined in accordance with these formulas.

The total number of shares of our common stock to be issued pursuant to the merger agreement (including upon exercise of assumed ONI options and warrants) will be determined at the time of the closing of the merger based on a formula that values us at the value of our net cash assets at closing and values ONI at \$20,000,000 (solely for purposes of this calculation). **We anticipate that completion of the merger will result in the current holders of ONI's equity securities owning a majority of our common stock.**

Based on [16,334,780] shares of our common stock outstanding on the record date, and assuming that the value of our net cash assets at closing provides for a Novoste valuation of \$12,500,000, we currently expect to issue an aggregate of [22,794,189] shares of our common stock and to assume options and warrants to purchase an aggregate of [3,650,259] shares of our common stock if the merger is completed. Accordingly, we anticipate that the current holders of ONI's equity securities will have voting power sufficient to control all major corporate decisions immediately after the merger. See Approval of Issuance of Shares in the ONI Merger Terms of the Merger Agreement Merger Consideration.

### **Q: What will be the composition of Novoste's board of directors after the merger?**

A: Immediately following the merger, our board of directors will consist of nine directors, five of whom have been designated by ONI and four of whom have been or will be designated by us. One of the five ONI designees will be Alfred J. Novak, who is currently our chief executive officer and one of our directors. Mr. Novak will resign from his management position at the closing of the merger. One of our four designees will be Stephen I. Shapiro, who is currently a director of both Novoste and ONI. See Approval of Issuance of Shares in the ONI Merger Terms of the Merger Agreement Board of Directors of the Combined Company.



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**Q: Who will be Novoste's largest shareholder after the merger?**

A: Based on [16,334,780] shares of Novoste common stock outstanding on the record date, and assuming that the value of our net cash assets at closing provides for a Novoste valuation of \$12,500,000, we expect that Galen Partners IV, LP and affiliated entities, who are currently shareholders of ONI, will beneficially own approximately [31]% of our common stock outstanding immediately after the merger. For information about the percentage ownership our largest shareholders will have in the combined company, see [Approval of Issuance of Shares in the ONI Merger](#) [Pro Forma Security Ownership of Novoste Following the Merger](#).

**Q: What will I receive for my shares in the merger?**

A: Our shareholders will not be exchanging their shares in the merger. Upon completion of the merger, you will continue to own the same number of shares of our common stock that you owned immediately before the merger. Because we will issue shares to the current holders of ONI's equity securities, however, the percentage ownership interest that your shares represent in us will be reduced.

**Q: What are the U.S. federal income tax consequences of the merger to me?**

A: We and ONI intend for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. As a result, the merger is not expected to have any U.S. federal income tax consequences for our current shareholders. See [Approval of Issuance of the Shares in the ONI Merger](#) [Material U.S. Federal Income Tax Consequences of the Merger](#).

**Q: Why am I being asked to approve amendments to Novoste's articles of incorporation?**

A: The amendments to our articles of incorporation are necessary in order for us to complete the merger. For example, if our shareholders do not approve the share increase proposal, we will not have enough shares authorized to issue our common stock to ONI's shareholders as contemplated by the merger agreement.

**Q: Are there risks I should consider in deciding whether to vote to approve the issuance of Novoste shares pursuant to the merger agreement?**

A: Yes. In evaluating the issuance of shares of our common stock pursuant to the merger agreement, you should carefully consider the factors discussed in [Risk Factors](#) beginning on page 13 and the other matters discussed in this proxy statement.

**Q: How do I cast my vote if I am a holder of record?**

A: After carefully reading and considering the information contained in this proxy statement, if you are a holder of record, you may vote in person at the special meeting or by submitting a proxy for the meeting. You can submit your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed, postage-paid envelope.

IF YOU SIGN, DATE AND SEND YOUR PROXY AND DO NOT INDICATE HOW YOU WANT TO VOTE, YOUR PROXY WILL BE VOTED FOR EACH PROPOSAL DESCRIBED IN THIS DOCUMENT, INCLUDING THE ISSUANCE OF SHARES OF OUR COMMON STOCK PURSUANT TO THE MERGER AGREEMENT AND THE AMENDMENTS TO OUR ARTICLES OF INCORPORATION.

**Q: If my shares are held in street name, will someone else vote my shares for me?**

A: If you hold your shares in street name, which means your shares are held of record by a broker, bank or nominee, you must provide the record holder of your shares with instructions on how to vote your shares. If you do not provide your broker, bank or nominee with instructions on how to vote your shares, such person or entity may not be permitted to vote your shares.

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**Q: Can I change my vote after I have delivered my proxy?**

A: Yes. If you are a record holder, you can change your vote at any time before your proxy is voted at the special meeting by delivering a later-dated, signed proxy card to our company secretary before the meeting or by attending the meeting and voting in person. You also may revoke your proxy by delivering, before the date of the meeting, a notice of revocation to our company secretary at 4350 International Boulevard, Norcross, Georgia 30093 (attn: Daniel Hall, Esq.).

**Q: What should I do if I receive more than one set of voting materials?**

A: You may receive more than one set of voting materials, including multiple copies of this document and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

**Q: Where will my shares of common stock be listed after completion of the merger?**

A: Our common stock is currently listed on the Nasdaq National Market. However, on April 21, 2005, we received a notice from Nasdaq indicating that we were not in compliance with the Nasdaq Stock Market's requirements for continued listing because, for the previous 30 consecutive business days, the bid price of our common stock had closed below the minimum \$1.00 per share requirement for continued inclusion under Nasdaq Marketplace Rule 4450(a)(5). We have until October 18, 2005, to achieve compliance with the minimum requirements for continued listing. If we do not regain compliance with the minimum requirements for continued listing by October 18, 2005, the Nasdaq staff will provide us with written notification that our common stock will be delisted from the Nasdaq National Market.

In addition, we have been preliminarily informed by the Nasdaq staff that our merger with ONI will constitute a change of control transaction, or reverse merger, requiring us to meet the Nasdaq National Market's initial listing requirements at the time of closing. These requirements include that our shareholders' equity immediately after the merger exceeds \$30 million, and that our common stock satisfies a \$5 per share minimum bid price immediately after closing. We have determined that our shareholders' equity immediately after the merger would not satisfy this requirement. As a result, if we are unable to convince the Nasdaq staff that the merger does not constitute a reverse merger, we anticipate that our common stock will be unable to remain listed on the Nasdaq National Market after the merger. If we are unable to retain the listing of our common stock on the Nasdaq National Market, we and ONI intend to attempt to obtain a new listing on the Nasdaq SmallCap Market or American Stock Exchange, or alternatively, the NASD's OTC Bulletin Board.

**Q: When does Novoste expect to complete the merger?**

A: We currently expect to complete the merger during the third calendar quarter of 2005.

**Q: Should I send in my share certificates?**

A: No. Your share certificates will not be exchanged in connection with the merger.

**Q: Do I have appraisal rights?**

A: No. Our shareholders do not have appraisal rights under Florida law in connection with the merger.



**Q: Who can help answer my questions?**

A: If you have any questions about the merger, the issuance of shares pursuant to the merger agreement, the amendments to our articles of incorporation or any of the other proposals, or about how to submit your

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proxy, or if you need additional copies of this document or the enclosed proxy card, you should contact either:

Novoste Corporation		Morrow & Co., Inc.
4350 International Boulevard		445 Park Avenue
Norcross, Georgia 30093	or	New York, New York 10022
Attention: Daniel G. Hall, Esq., General Counsel		Phone: (800) 654-2468
Phone: (770) 717-0904		

**Q: Where can I find more information about the companies?**

A: You can find more information about us from various sources described under [Where You Can Find More Information](#). Because ONI is a private company that does not file reports with the SEC, there is limited information publicly available about ONI, other than what has been provided in this proxy statement.

**Q: How may this proxy be solicited and who is bearing the cost of this proxy solicitation?**

A: Proxies may be solicited on behalf of our board of directors by mail, telephone, facsimile or electronic communication or in person and we will pay the solicitation costs, which include the cost of printing and distributing proxy materials and soliciting of votes. Our directors, officers and employees may solicit proxies by such methods without additional compensation. In addition, we have retained Morrow & Co., Inc. to assist us in the solicitation of proxies at an estimated cost of up to \$50,000 plus expenses. We also will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to shareholders.

\* \* \* \* \*

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**SUMMARY TERM SHEET**

Annual Meeting Time and Date 8:30 a.m., local time, on [\_\_\_\_\_], 2005

Annual Meeting Location Atlanta Marriott Gwinnett Place  
1775 Pleasant Hill Road  
Duluth, Georgia

Record Date [ ]

*Proposal 1* The Issuance of Shares in the ONI Merger

The ONI Merger Our wholly owned subsidiary, ONIA Acquisition Corp., will merge with and into ONI Medical Systems, Inc. As a result, ONI will become our wholly owned subsidiary.

The Share Issuance We are asking our shareholders to approve the issuance of shares of our common stock to the holders of ONI capital stock, as well as the issuance of shares of our common stock upon the exercise of the options and warrants that we will assume from ONI. The total number of shares of our common stock to be issued if the merger is completed (including upon exercise of assumed ONI options and warrants) will be determined at the time of the closing of the merger based on a formula that values us at the value of our net cash assets at closing and values ONI at \$20,000,000 (solely for purposes of this calculation). **We anticipate that completion of the merger will result in the current holders of ONI s equity securities owning a majority of our common stock.**

Based on [16,334,780] shares of our common stock outstanding on the record date, and assuming that the value of our net cash assets at closing provides for a Novoste valuation of \$12,500,000, we currently expect to issue an aggregate of [22,794,189] shares of our common stock, and to assume options and warrants to purchase an aggregate of [3,650,259] shares of our common stock, if the merger is completed. Accordingly, we anticipate that the current holders of ONI s equity securities will have voting power sufficient to control all major corporate decisions immediately after the merger. See Approval of Issuance of Shares in the ONI Merger Terms of the Merger Agreement Merger Consideration.

We have been preliminarily informed by the Nasdaq staff that our merger with ONI will constitute a change of control transaction, or reverse merger, requiring us to meet the Nasdaq National Market s initial listing requirements at the time of closing. These requirements include that our shareholders equity immediately after the merger exceeds \$30 million, and that our common stock satisfies a \$5 per share minimum bid price immediately after closing. We have determined that our shareholders equity immediately after the merger would not satisfy this requirement. As a result, if we are unable to

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convince the Nasdaq staff that the merger does not constitute a reverse merger, we anticipate that our common stock will be unable to remain listed on the Nasdaq National Market after the merger. If we are unable to retain the listing of our common stock on the Nasdaq National Market, we and ONI intend to attempt to obtain a new listing on the Nasdaq SmallCap Market or American Stock Exchange, or alternatively, the NASD's OTC Bulletin Board.

Required Vote	The affirmative vote of a majority of the total votes cast is required to approve the issuance of our shares pursuant to the merger agreement. See 2005 Annual Meeting of Shareholders Required Vote; Broker Voting Procedures.
Conditions to Closing	The conditions to the ONI merger include the approval by our shareholders of the issuance of shares of our common stock pursuant to the merger agreement, an amendment to our articles of incorporation to increase our authorized common stock, an amendment to our articles of incorporation to change our name from Novoste Corporation to ONI Medical Systems, Inc., and other conditions described in Approval of Issuance of Shares in the ONI Merger Terms of the Merger Agreement Conditions to Complete the Merger.
Fairness Opinion	Asanté Partners LLC, an investment banking firm, has given its opinion, dated May 16, 2005, to our board of directors that the consideration to be paid in connection with the ONI merger is fair from a financial point of view to us. See Approval of Issuance of Shares in the ONI Merger Opinion of our Financial Advisor.
U.S. Federal Income Tax Consequences	We and ONI intend for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. As a result, the merger will have no U.S. federal income tax consequences for us or our current shareholders. See Approval of Issuance of Shares in the ONI Merger Material U.S. Federal Income Tax Consequences of the Merger.
Business of Novoste After the Merger	Upon completion of the merger, our business will be ONI's business, namely, the development, manufacturing and marketing of dedicated-purpose magnetic resonance imaging systems.
The Board of Directors and Management of Novoste after the Merger	Upon completion of the merger, the existing management of ONI will become our management and our board of directors will consist of nine directors, five of whom have been designated by ONI and four of whom have been or will be designated by us.
<i>Proposal 2</i> An Increase in the Number of Authorized Shares of Novoste Common Stock	In order for us to issue the shares of our common stock to the holders of ONI capital stock at closing and to reserve a sufficient number of

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shares for issuance upon the exercise of options and warrants we will assume if the merger is completed, we must first amend our articles of incorporation to increase the number of shares of common stock that we are authorized to issue. Our board of directors is recommending that our shareholders approve the proposed amendment to increase the number of authorized shares of common stock from 25,000,000 to 75,000,000.

**Required Vote** In order to approve the proposal to increase the number of authorized shares of our common stock, the number of votes cast by shareholders at the special meeting in favor of the proposal must exceed the number of votes cast against the proposal.

*Proposal 3* A Change in the Name of Novoste Corporation to ONI Medical Systems, Inc. The ONI merger represents a complete change in the nature of our business. Because of this change, we agreed in the merger agreement that our name after the merger should be ONI Medical Systems, Inc. Our board of directors is recommending that our shareholders approve the proposed amendment to our articles of incorporation to change our name from Novoste Corporation to ONI Medical Systems, Inc.

**Required Vote** In order to approve the proposal to change our name to ONI Medical Systems, Inc., the number of votes cast by shareholders at the special meeting in favor of the proposal must exceed the number of votes cast against the proposal.

*Proposal 4* Election of Two Directors to our Board of Directors Our board of directors has nominated Thomas D. Weldon and Charles E. Larsen, whose terms will expire at the special meeting in lieu of an annual meeting, for re-election to our board of directors as Class III directors for terms expiring at the annual meeting in 2008. If we complete the ONI merger, however, Mr. Weldon and two of our other directors, J. Stephen Holmes and William E. Whitmer, will resign and five new directors will be added to our board as described in Approval of Issuance of Shares in the ONI Merger Terms of the Merger Agreement Board of Directors of the Combined Company.

**Required Vote** A plurality of the total votes cast is required to elect each of the two directors.

*Proposal 5* The Adjournment Proposal We are asking our shareholders to authorize the holder of the proxy solicited by our board of directors to vote in favor of adjourning the special meeting to a future date in order to enable our board of directors to solicit additional proxies in favor of the share issuance and the two proposed amendments to our articles of incorporation if such a proposal is presented at the special meeting.

**Required Vote** In order to approve this proposal, the number of votes cast by shareholders at the special meeting in favor of the proposal must exceed the number of votes cast against the proposal.

**Table of Contents****SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA OF NOVOSTE**

The summary consolidated financial data shown below for the fiscal years ended December 31, 2004, 2003 and 2002, and as of December 31, 2004 and 2003, have been taken or derived from our audited financial statements included in this proxy statement. The summary consolidated financial data shown below for the fiscal quarters ended March 31, 2005 and 2004, and as of March 31, 2005, have been taken or derived from our unaudited financial statements included in this proxy statement. In the opinion of management, the unaudited financial statements contain all adjustments (all of which were considered normal and recurring) necessary to present fairly the results of the interim periods. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2005. The summary consolidated financial data shown below for the fiscal years ended December 31, 2001 and 2000, and as of December 31, 2002, 2001 and 2000, have been derived from our financial statements for those years, which are not included in this proxy statement. The summary consolidated financial data shown below should be read in conjunction with the consolidated financial statements and related notes of Novoste and with Novoste Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this proxy statement.

	Three Months Ended		Year Ended December 31				
	March 31		2004	2003	2002	2001	2000
	2005 (1)	2004	2004	2003	2002	2001	2000
(In thousands, except per share amounts)							
<b>Consolidated Statement of Operations Data:</b>							
Net sales	\$ 3,413	\$ 7,025	\$ 23,268	\$ 62,901	\$ 69,030	\$ 69,908	\$ 6,530
Cost and expenses:							
Cost of sales	4,118	3,953	16,111	24,315	27,313	19,164	4,258
Impairment and related charges			9,349		6,900		
Research and development	434	2,475	4,633	11,986	13,300	12,756	17,119
Sales and marketing	2,702	3,489	12,558	19,485	26,875	35,868	15,651
General and administrative	2,878	1,800	8,036	8,237	8,335	9,324	6,321
Loss from operations	(6,719)	(4,692)	(27,419)	(1,122)	(13,693)	(7,204)	(36,819)
Other income	165	78	498	254	642	2,095	3,746
Net loss	\$ (6,554)	\$ (4,614)	\$ (26,921)	\$ (868)	\$ (13,051)	\$ (5,109)	\$ (33,073)
Basic and diluted net loss per share	\$ (0.40)	\$ (0.28)	\$ (1.65)	\$ (0.05)	\$ (0.80)	\$ (0.32)	\$ (2.13)
Weighted average shares outstanding	16,335	16,331	16,333	16,313	16,268	16,152	15,517

	At March 31,	At December 31				
	2005 (1)	2004	2003	2002	2001	2000
(In thousands)						
<b>Consolidated Balance Sheet Data:</b>						
Working capital	\$ 19,618	\$ 25,753	\$ 39,364	\$ 30,496	\$ 40,482	\$ 53,742
Total assets	27,043	33,702	61,407	67,520	82,911	77,073
Long-term liabilities				5	203	401
Accumulated deficit	(168,777)	(162,223)	(135,302)	(134,434)	(121,384)	(116,275)
Total shareholders' equity	19,806	26,454	53,244	52,765	64,728	67,042

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- (1) On February 22, 2005, we announced that our board of directors had determined that our vascular brachytherapy business, which is our only business line, is no longer viable and, as a result, had authorized a staged wind-down of the business. As described in the notes to our financial statements, assets have been stated at estimated net realizable value and accruals have been recorded to reflect the business assumptions of the wind-down in accordance with FAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

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The summary financial data shown below for the fiscal years ended December 31, 2004, 2003 and 2002, and as of December 31, 2004 and 2003, have been taken or derived from ONI's audited financial statements included in this proxy statement. The summary financial data shown below for the fiscal quarters ended March 31, 2005 and 2004, and as of March 31, 2005, have been taken or derived from ONI's unaudited financial statements included in this proxy statement. In the opinion of ONI's management, the unaudited financial statements contain all adjustments (all of which were considered normal and recurring) necessary to present fairly the results of the interim periods. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2005. The summary financial data shown below for the fiscal years ended December 31, 2001 and 2000, and as of December 31, 2002, 2001 and 2000, have been derived from ONI's financial statements for those years, which are not included in this proxy statement. The summary financial data shown below should be read in conjunction with the financial statements and related notes of ONI and with ONI Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this proxy statement.

	Three Months Ended March 31		Year Ended December 31				
	2005	2004	2004	2003	2002	2001	2000
(In thousands, except per share amounts)							
<b>Consolidated Statement of Operations Data:</b>							
Total revenue	\$ 2,629	\$ 655	\$ 8,887	\$ 8,297	\$ 6,276	\$ 725	\$
Total cost of revenue	2,125	758	7,826	5,761	4,752	1,358	
Gross profit (loss)	504	(103)	1,061	2,536	1,524	(633)	
Research and development	602	466	1,843	1,783	2,328	1,766	1,534
Sales and marketing	977	963	3,392	2,291	1,894	1,300	234
General and administrative	515	443	1,822	1,314	1,255	1,242	936
Loss from operations	(1,590)	(1,975)	(5,996)	(2,852)	(3,953)	(4,941)	(2,704)
Other income (expense)		25	(4)	(206)	(188)	67	90
Net loss	\$ (1,590)	\$ (1,950)	\$ (6,000)	\$ (3,058)	\$ (4,141)	\$ (4,874)	\$ (2,614)
Basic and diluted net loss per share	\$ (0.27)	\$ (0.33)	\$ (1.01)	\$ (0.90)	\$ (2.06)	\$ (4.81)	\$ (2.86)
Weighted average shares outstanding	5,930	5,930	5,930	3,408	2,013	1,014	914

	At March 31, 2005	At December 31				
		2004	2003	2002	2001	2000
(In thousands)						
<b>Consolidated Balance Sheet Data:</b>						
Working capital (deficit)	\$ (1,794)	\$ 153	\$ 2,844	\$ (1,064)	\$ (290)	\$ (100)
Total assets	7,064	7,829	6,906	5,113	3,667	3,113
Long-term liabilities	660	397				
Redeemable convertible preferred stock	11,800	11,800	8,500			
Accumulated deficit	(25,397)	(23,807)	(17,806)	(14,552)	(10,411)	(5,537)
Total shareholder's equity (deficit)	(12,438)	(10,848)	(4,646)	88	758	552





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**SUMMARY UNAUDITED PRO FORMA COMBINED  
CONSOLIDATED FINANCIAL DATA OF ONI AND NOVOSTE**

The following summary unaudited pro forma combined consolidated financial data have been derived from and should be read together with the unaudited pro forma combined consolidated financial statements and related notes on pages 130 through 135, which are preliminary and have been prepared solely for purposes of developing the pro forma information. This information is based on our historical consolidated balance sheets and related historical consolidated statements of operations and those of ONI, and gives effect to the merger using the purchase method of accounting for business combinations, with ONI as the acquiring entity. Our historical statements of operations have been adjusted for the pro forma impact of the disposition or wind-down of our VBT business.

The following summary unaudited pro forma combined financial data are intended to provide you with a better description of what our operating results might have been had we completed the merger and disposed of or wound-down our VBT business as of January 1, 2004 for the statement of continuing operations data and as of March 31, 2005 for the balance sheet data. The data are for illustrative purposes only. Novoste and ONI may have performed differently had we always been combined. Further, the summary unaudited pro forma combined financial data do not reflect the full effect of restructuring charges that we will incur or costs related to the exiting of the VBT business. You should not rely on the summary unaudited pro forma combined financial data as being indicative of the historical results that would have been achieved had the companies always been combined or the financial position and operating results that the combined company will experience after the merger.

	Three Months Ended	Year Ended
	March 31, 2005	December 31, 2004
	(In thousands, except per share amounts)	
<b>Statement of Continuing Operations Data:</b>		
Revenues	\$ 2,629	\$ 8,887
Net loss	(1,850)	(7,214)
Net loss per share basic and diluted	(0.05)	(0.18)
<b>Balance Sheet Data:</b>		
Working capital	\$ 12,754	
Total assets	32,140	
Long-term liabilities	660	
Accumulated deficit	(30,606)	
Total shareholders' equity	13,691	

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Set forth below are net loss and book value per common share amounts for Novoste and ONI on a historical basis, for the combined company on a pro forma combined basis per Novoste common share and for the combined company on a pro forma combined basis per equivalent ONI common share. Neither we nor ONI paid a cash dividend during any of the periods presented below.

The pro forma combined data were derived by combining the adjusted historical consolidated financial information of Novoste and ONI using the purchase method of accounting for business combinations as described under Unaudited Pro Forma Combined Consolidated Financial Data of ONI and Novoste.

You should read the information below together with the consolidated financial statements and related notes of Novoste and ONI, Novoste Management's Discussion and Analysis of Financial Condition and Results of Operations, ONI Management's Discussion and Analysis of Financial Condition and Results of Operations, Selected Historical Consolidated Financial Data of Novoste and Selected Historical Financial Data of ONI included elsewhere in this proxy statement. The unaudited pro forma combined data below are for illustrative purposes only. The financial results may have been different had the companies always been combined. You should not rely on this information to be indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the merger.

	<b>Three Months Ended</b>	<b>Year Ended</b>
	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>Novoste historical data, per common share:</b>		
Net loss - basic and diluted	\$ (0.40)	\$ (1.65)
Book value at end of period	1.21	1.62
<b>ONI historical data, per common share:</b>		
Net loss - basic and diluted	\$ (0.27)	\$ (1.01)
Book value at end of period	(2.10)	(1.83)
<b>Combined consolidated pro forma data, per Novoste common share:</b>		
Net loss - basic and diluted	\$ (0.05)	\$ (0.18)
Book value at end of period	0.35	
<b>Combined consolidated pro forma data, per equivalent ONI common share:</b>		
Net loss - basic and diluted	\$ (0.06)	\$ (0.21)
Book value at end of period	0.41	

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**RISK FACTORS**

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, set forth below are cautionary statements identifying important factors that could cause actual events or results to differ materially from any forward-looking statements made by us or on our behalf, whether oral or written. We wish to ensure that any forward-looking statements are accompanied by meaningful cautionary statements in order to maximize to the fullest extent possible the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors that could cause actual events or results to differ materially from our forward-looking statements.

In addition to the other information included in this proxy statement (including the matters addressed in *Cautionary Note Regarding Forward-Looking Statements* ), you should consider carefully the matters described below in evaluating the proposed merger and the other proposals on which the merger is contingent, as well as our business, the business of ONI and the proposed business of the combined company. Additional risks and uncertainties that are not presently known to us or ONI or that we do not currently believe to be important to you also may adversely affect our respective businesses, the merger or the combined business following the merger.

**Risks Related to the Merger and the Combined Company**

*The market price of our common stock may fluctuate significantly, and may be less than the market price of our common stock as of the date of the merger agreement, this proxy statement or the special meeting.*

At the closing of the merger, all ONI equity securities will be converted into the right to receive shares of our common stock. The ratios at which ONI equity securities will be converted will not be adjusted for changes in the value of ONI or the market price of our common stock. We cannot abandon the merger or resolicit the vote of our shareholders solely because of changes in the value of ONI or the market price of our common stock.

The market price and trading volume of our common stock may vary significantly between the dates of the merger agreement, this proxy statement, the special meeting and the completion of the merger. These variations may be caused by, among other factors, responses to the risk factors described in this proxy statement, market expectations of the likelihood that the merger will be completed and the timing of its completion, the market's perception of the merits of the merger, or the prospects for our post-merger operations, or for reasons unrelated to our performance, such as reports by industry analysts, investor perceptions, or announcements by our or ONI's customers, competitors or suppliers regarding their own performance, as well as general economic and industry conditions. Accordingly, the trading price of our common stock now or on the date of the special meeting may not be indicative of the price of our common stock after the merger is completed. There can be no assurance that the market price or the trading volume of our common stock after the merger will be at or above the market price and trading volume of our common stock on the date of the merger agreement, this proxy statement, the special meeting or the closing.

*We and ONI will incur significant costs in connection with the merger, whether or not we complete it.*

We and ONI expect to incur significant costs related to the merger. These expenses include financial advisory, legal and accounting fees and expenses, severance and employee benefit related expenses, filing fees, printing expenses, proxy solicitation and other related charges. We and ONI may also incur additional unanticipated expenses in connection with the merger. A portion of the costs related to the merger, such as legal

and accounting fees, will be incurred regardless of whether the merger is completed. These expenses will reduce the assets that the combined company will have to operate its business after the merger.

***Completion of the merger will result in substantial and immediate dilution to the voting power and equity interests of our current shareholders.***

The issuance of shares of our common stock and options and warrants to purchase shares of our common stock to the holders of ONI equity securities if the merger is completed will significantly dilute the voting power

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and ownership percentage of our existing shareholders. The total number of shares of our common stock to be issued if the merger is completed (including upon exercise of assumed ONI options and warrants) will be determined at the closing based on a formula that values us at the value of our net cash assets at closing and values ONI at \$20,000,000 (solely for purposes of this calculation). We anticipate that completion of the merger will result in the current holders of ONI's equity securities owning a majority of our common stock.

Based on [16,334,780] shares of our common stock outstanding on the record date, and assuming that the value of our net cash assets at closing provides for a Novoste valuation of \$12,500,000, we currently expect to issue an aggregate of [22,794,189] shares of our common stock at closing and to assume options and warrants to purchase an aggregate of [3,650,259] shares of our common stock. Accordingly, we anticipate that the current holders of ONI's equity securities will have voting power sufficient to control all major corporate decisions immediately after the merger. See "Approval of Issuance of Shares in the ONI Merger" "Terms of the Merger Agreement" "Merger Consideration."

***If the combined company continues to experience losses after the merger, it could experience difficulty meeting its business plan, and our stock price could be negatively affected.***

During 2004 we had net losses of \$26.9 million and negative cash flow from operations of \$6.3 million, and ONI had net losses of \$6.0 million and negative cash flow from operations of \$5.2 million. After the merger, it is expected that the combined company will continue to experience operating losses and negative cash flow from operations. Any failure to achieve and then maintain profitability and positive cash flow could negatively impact the market price of our common stock and our ability to continue as a going concern. ONI has not been profitable or cash flow positive on a quarterly or annual basis. As a result, the combined company will need to generate significant quarterly revenues if it is to achieve profitability and positive cash flow. A failure to achieve profitability or positive cash flow could make it difficult or impossible for the combined company to grow its business. If its business strategy is not successful, it may not generate significant revenues or achieve profitability.

***The combined company may need additional funds which, if available, could result in increased interest expenses or additional dilution to our shareholders. If additional funds are needed and are not available, the business of the combined company could be negatively impacted.***

If we need to raise additional funds, we may not be able to do so on terms favorable to us, or at all. The combined company may need to seek higher-priced financing, modify or abandon its growth strategy or eliminate product and service offerings, any of which could negatively impact the combined company's financial position. If funds are raised through the issuance of equity securities, the percentage ownership of our then-current shareholders will be reduced and the holders of new equity securities may have rights, preferences or privileges senior to those of the holders of our common stock. If additional funds are raised through a bank credit facility or the issuance of debt securities, the holder of such indebtedness would have rights senior to the rights of common shareholders and the terms of such indebtedness could impose restrictions on our operations.

***After the merger, our board of directors will consider the filing of a registration statement with the SEC to register the resale of the shares of our common stock issued under the merger agreement, and the availability of these shares for sale in the public markets may cause a significant drop in the market price of our common stock.***

Based on [16,334,780] shares of our common stock outstanding on the record date, and assuming that the value of our net cash assets at closing provides for a Novoste valuation of \$12,500,000, we currently expect to issue an aggregate of [22,794,189] shares of our common stock at closing and to assume options and warrants to purchase an aggregate of [3,650,259] shares of our common stock. After the merger, our board of directors will consider the filing of a registration statement with the SEC to register for resale in the public markets shares of our common stock issued under the merger agreement, as well as one or more registration statements on Form S-8 to register shares of our common stock issuable

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pursuant to assumed options. Sales of a substantial number of these shares of our common stock, or the perception that such sales could occur, could adversely affect the market price of our common stock.

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*After the merger, the former principal shareholders of ONI will have significant influence over Novoste.*

Based on assumptions described elsewhere in this proxy statement, including the assumption that the value of our net cash assets at closing provides for a Novoste valuation of \$12,500,000, we anticipate that Galen Partners IV, LP and its affiliates, who currently control ONI, will beneficially own approximately [31]% of our common stock outstanding immediately after the merger. As a result, these principal shareholders of ONI will possess significant influence over our affairs after the merger. Under the merger agreement, Bruce F. Wesson and Srin Conjeevaram, the managing director and general partner of Galen Partners IV, LP, respectively, will become members of our board of directors after the merger. In addition, Stephen I. Shapiro, an independent consultant to Galen Partners IV, LP, will continue as a member of our board of directors after the merger. Galen Partners' stock ownership and relationships with members of our board of directors may have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could materially and adversely affect the market price of our common stock. If our net cash assets are \$11,750,000 or less at closing, we currently anticipate that Galen Partners IV, LP and its affiliates will beneficially own between approximately [32]% and [34]% of our common stock outstanding immediately after the merger.

*We may be unable to maintain an established public trading market after the merger, which would adversely affect your ability to sell your shares.*

Although our common stock is currently listed on the Nasdaq National Market, a regular trading market for our common stock may not exist or be sustained in the future, in which case you should consider your investment in our common stock illiquid. On April 21, 2005, we received a notice from the Nasdaq Stock Market indicating that we were not in compliance with the Nasdaq Stock Market's requirements for continued listing because, for the previous 30 consecutive business days, the bid price of our common stock had closed below the minimum \$1.00 per share requirement for continued inclusion under Nasdaq Marketplace Rule 4450(a)(5). We have until October 18, 2005, to achieve compliance with the minimum requirements for continued listing. If we do not regain compliance with the minimum requirements for continued listing by October 18, 2005, the Nasdaq staff will provide us with written notification that our common stock will be delisted from the Nasdaq National Market. In addition, we have been preliminarily informed by Nasdaq staff that our merger with ONI will constitute a change of control transaction, or reverse merger, requiring us to meet Nasdaq's initial listing requirements at the time of closing. These requirements include that our shareholders' equity immediately after the merger exceeds \$30 million, and that our common stock satisfies a \$5 per share minimum bid price immediately after closing. We have determined that our shareholders' equity immediately after the merger would not satisfy this requirement. As a result, if we are unable to convince Nasdaq staff that the merger does not constitute a reverse merger, we anticipate that our common stock will be unable to remain listed on the Nasdaq National Market after the merger.

If we are unable to retain the listing of our common stock on the Nasdaq National Market, we and ONI intend to attempt to obtain a new listing on the Nasdaq SmallCap Market or American Stock Exchange. To obtain a new listing on the Nasdaq SmallCap Market, we anticipate that our common stock will need to satisfy a \$4 per share minimum bid price requirement immediately after closing. To obtain a new listing on the American Stock Exchange, we anticipate that our common stock will need to satisfy either a \$3 per share minimum bid price requirement or a \$50 million market capitalization requirement immediately after closing. Based on the recent trading price of our common stock, we do not anticipate that our common stock would be able to satisfy either of these requirements unless we completed a reverse share split, in which shares of our common stock would be combined to increase the percentage ownership interest that each share represents. Our board of directors is permitted under Florida law to authorize a reverse share split without the approval of our shareholders, and may consider authorizing such a split to obtain a listing on the Nasdaq SmallCap Market or American Stock Exchange.

If we are unable to retain our listing on the Nasdaq National Market, or obtain a new listing on the Nasdaq SmallCap Market or American Stock Exchange, we may seek to have our stock quoted on the NASD's OTC





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Bulletin Board, which is an inter-dealer, over-the-counter market that provides significantly less liquidity than the Nasdaq National Market, Nasdaq SmallCap Market or American Stock Exchange. Quotes for stocks included on the OTC Bulletin Board are not as widely listed in the financial sections of newspapers as are those for the Nasdaq National Market. Therefore, prices for securities traded solely on the OTC Bulletin Board may be difficult to obtain and holders of our common stock may be unable to resell their securities at any price.

***If we move trading of our common stock to the NASD's OTC Bulletin Board, our common stock will be a penny stock and may be difficult to sell.***

If we move trading of our common stock to the NASD's OTC Bulletin Board, our common stock will be a penny stock under Rule 3a51-1 under the Securities Exchange Act of 1934. Compliance with the penny stock requirements would make it more difficult for you to resell your shares to third parties or to dispose of them in the public market or otherwise. Securities broker-dealers would not be permitted to recommend our common stock and would be required to trade in it on an unsolicited basis. Additionally, Section 15(g) of the Exchange Act and Rule 15g-2 require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to:

obtain from the investor information concerning his or her financial situation, investment experience and investment objectives;

reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions;

provide the investor with a written statement setting forth the basis on which the broker-dealer made this determination; and

receive a signed and dated copy of this statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives.

***ONI is a private company and has not been subject to the same corporate governance standards as stock exchange or Nasdaq-listed companies, which may adversely affect the willingness of investors to buy or hold shares of the combined company's common stock.***

As a private company, ONI has not been subject to the enhanced corporate governance requirements applicable to companies whose securities are listed on a national securities exchange or with the Nasdaq Stock Market. Investors may lack confidence in the management of the combined company as management establishes and implements the enhanced corporate governance requirements of a public company. A lack of confidence in the combined company's management could lead to a substantial stock price decline.

***After the merger, the financial statements of the combined company will reflect substantially larger costs associated with compliance with laws and regulations affecting public companies, which will adversely affect the combined company's results of operations.***

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For accounting purposes, ONI will be treated as the acquiring entity in the merger and, as a result, its historical financial statements will become the financial statements of the combined company. Because ONI has operated as a private company, it has not previously incurred the substantial accounting, legal and other expenses that the combined company will incur as a public company. After the merger, the financial statements of the combined company will reflect these substantial expenses, including costs associated with periodic reporting requirements under the Securities Exchange Act of 1934 and costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002. The expenses generally incurred by public companies for reporting and corporate governance purposes have been increasing. We expect that the

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rules and regulations applicable to public companies will increase the combined company's legal and financial compliance costs and will make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty.

*After the merger, ONI will be required for the first time to evaluate its internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in the combined company's financial reports and lead to a substantial stock price decline.*

After the merger, the combined company will be required to furnish a report by its management on its internal control over financial reporting, including ONI's internal control over financial reporting. The report will contain, among other matters, an assessment of the effectiveness of ONI's internal control over financial reporting as of the end of the fiscal year, including a statement as to whether or not ONI's internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in ONI's internal control over financial reporting identified by management. The report must also contain a statement that the combined company's independent auditors have issued an attestation report on management's assessment of such internal controls.

ONI has not yet begun the process of analyzing its internal controls and preparing for the evaluation needed to comply with Section 404. During this process, if management identifies one or more material weaknesses in ONI's internal control over financial reporting that are not remediated, the combined company will be unable to assert that its internal control is effective. Any failure to have effective internal control over financial reporting could cause investors to lose confidence in the accuracy and completeness of the combined company's financial reports, which could lead to a substantial stock price decline.

*Management of the combined company does not intend to pay dividends.*

Neither Novoste nor ONI have ever declared or paid any cash dividends on its capital stock. The combined company anticipates that it will retain all future earnings, if any, to support its operations and to finance the growth and development of its business and therefore does not expect to pay cash dividends. Any return on an investment in the combined company will only be as a result of stock price appreciation, if any.

*The combined company could be the subject of securities class action litigation as a result of future stock price volatility, which could divert management's attention and adversely affect its results of operations.*

The stock market in general, and market prices for the securities of small medical device companies like ONI in particular, have from time to time experienced volatility that often has been unrelated to the operating performance of the underlying companies. We and ONI expect that the merger itself will create a certain degree of stock price volatility. These broad market and industry fluctuations may adversely affect the market price of the combined company's common stock, regardless of its operating performance. In several recent situations where the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the issuer. If any of the combined company's shareholders were to bring a lawsuit against it, the defense and disposition of the lawsuit could be costly and divert the time and attention of its management and harm its business.

## **Risks Related to Novoste's Business**

*If the merger with ONI is not completed, Novoste will have no continuing business operations.*

Our board of directors has authorized the staged wind-down of our VBT business, which is our only business line. We are currently implementing the wind-down, which we expect to complete before the end of the 2005. Should our shareholders not approve the proposals to allow us to complete the merger, we will have no ongoing business operations and our board of directors will need to consider other alternatives, including liquidation and dissolution.

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***Difficulties efficiently implementing our staged wind-down of business operations could reduce the amount of our remaining corporate assets.***

Our board has authorized the staged wind-down of our VBT business to preserve our cash resources. During the wind-down of our business, we will need to negotiate the orderly extinguishment of our obligations to creditors. Effectively implementing the wind-down of our business will depend on our ability to maximize the consideration we receive for our assets, minimize the amount we must expend to settle our debts and other liabilities, minimize our contingent liabilities, minimize our operating expenses during the wind-down process and expedite the wind-down process. If we are unable to efficiently implement the wind-down of our business, our corporate assets may be further depleted.

***If the merger with ONI is not completed and we were to liquidate and dissolve, any cash amount distributed to shareholders could be significantly lower than prices at which our common stock has traded in the recent past.***

If the merger with ONI is not completed and we were to liquidate and dissolve, we cannot predict when, or if, we would be able to make a distribution to our shareholders. However, if one or more cash distributions were made after dissolution, we expect that the amount distributed could be significantly lower than some prices at which our common stock has traded in the recent past, and there can be no assurance that such amount, if any, would equal the prices at which our common stock could trade in the future.

***If we liquidate and dissolve and have assets available to distribute to shareholders, our board will need to make provision for the satisfaction of all of our known and unknown liabilities, which could substantially delay or limit our ability to make any distribution to shareholders.***

If we liquidate and dissolve, our board of directors will be required to make adequate provision to satisfy our liabilities, including known and unknown claims against us, before authorizing any distributions to shareholders after dissolution. The process of accounting for our liabilities, including those that are presently unknown, may involve difficult valuation decisions, which could adversely impact the board's ability to make any such distribution after dissolution in a timely manner. Substantial time may be required for us to determine the extent of our liabilities to known and unknown third party creditors and claimants. Furthermore, pursuant to the Florida Business Corporations Act, we may be liable for known and unknown claims for a substantial period of time in the future. As a result, there can be no assurance that we would have sufficient cash available to make any distributions to shareholders after dissolution. If we were to have sufficient remaining cash, a substantial period may elapse after dissolution before we would be able to make any such distribution to shareholders, and such distribution, if any, may be made in more than one installment over an extended period of time.

***If we make one or more distributions after dissolution, our shareholders could be liable to the extent of distributions received if contingent reserves are insufficient to satisfy our liabilities.***

In the event of our liquidation and dissolution, if we fail to create an adequate contingency reserve for payment of our expenses and liabilities, each shareholder receiving a distribution after dissolution could be held liable for the payment to creditors of such shareholder's *pro rata* portion of any shortfall, limited to the amounts previously received by the shareholder in distributions from Novoste.

If a court holds at any time that we have failed to make adequate provision for our expenses and liabilities or if the amount ultimately required to be paid in respect of such liabilities exceeds the amount available from the contingency reserve, our creditors could seek an injunction against the making of distributions after dissolution on the grounds that the amounts to be distributed are needed to provide for the payment of our

expenses and liabilities. Any such action could delay or substantially diminish the amount of any cash distributions to shareholders after dissolution.

*We may continue to incur the expense of complying with public company reporting requirements.*

We have an obligation to continue to comply with the applicable reporting requirements of the Securities Exchange Act of 1934 even though compliance with such reporting requirements is economically burdensome. If

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the merger with ONI is not completed and we were to liquidate and dissolve, then in order to curtail such expenses, after filing our certificate of dissolution upon shareholder approval of a plan of liquidation, we might seek relief from the SEC for a substantial portion of the periodic reporting requirements under that Act. There can be no assurance that we would be able to obtain such relief.

*Product liability suits against us could result in expensive and time-consuming litigation and the payment of substantial damages.*

The past and future sale and use of our products could lead to the filing of product liability claims if someone were to allege that one of our products contained a design or manufacturing defect. A product liability claim could result in substantial damages and be costly and time-consuming to defend, either of which could materially harm our business or financial condition. We cannot assure that our product liability insurance would protect our assets from the financial impact of defending a product liability claim.

*We have substantially reduced our workforce as part of our wind-down of operations.*

We currently have extremely limited personnel resources. During 2004, we engaged in a restructuring of our management organization and significantly reduced our work force. In February 2005, we announced that we were reducing our remaining United States workforce in the first quarter of 2005 by 52 employees, from 81 employees, and terminating the 16 employees we had outside the U.S. in accordance with their contracts and the relevant country's employment regulations. We currently have 26 employees, 2 of whom are employed outside the U.S. If the merger with ONI is not completed, it may be difficult for us to efficiently implement the staged wind-down of our business.

*We are highly dependent on key management personnel.*

We are currently highly dependent on the principal members of our management staff, particularly our President and Chief Executive Officer, Chief Financial Officer and General Counsel. As a result of the staged wind-down of our business, it may be difficult for us to provide adequate incentives for these employees to remain employed with us. The loss of any of these employees could cause a material adverse effect on our ability to efficiently implement the staged wind-down of our business.

**Risks Related to ONI's Business**

*ONI has had and continues to experience significant losses.*

ONI has incurred operating losses since its inception and had an accumulated deficit of approximately \$25.4 million as of March 31, 2005. ONI incurred net losses of approximately \$3.1 million in 2003, \$6.0 million in 2004 and \$1.6 million in the three months ended March 31, 2005. ONI expects to continue to incur losses in the near future, and the amount of future losses is uncertain. There is no assurance that ONI will operate profitably in the foreseeable future or at all.



ONI intends to continue to make substantial investments in internal expansion, infrastructure, sales and marketing efforts and potential acquisitions. If ONI's revenues fail to grow at a sufficiently rapid pace to offset planned increases in expenses, or if ONI is unable to curb its losses and achieve profitability, its future growth could be seriously harmed.

*ONI has a limited operating history, which makes prediction of future results of operations difficult or impossible.*

ONI was incorporated in June 1997. ONI sold its first OrthOne® MRI system in the later half of 2001. As of June 30, 2005, ONI has sold and installed a total of only 70 OrthOne systems. Accordingly, ONI has a very limited operating history, which makes prediction of future results of operations difficult or impossible.

*Ernst & Young LLP, ONI's independent registered public accounting firm, issued its 2004 audit report with a going concern qualification, which raises substantial doubt about ONI's continued viability if ONI does not raise additional capital to fund its operations for the next twelve months.*

The audit report of ONI's independent auditors on ONI's 2004 financial statements included an explanatory paragraph expressing substantial doubt about ONI's ability to continue as a going concern. As of March 31,

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2005, ONI had negative working capital of approximately \$1.8 million and an accumulated deficit of approximately \$25.4 million, which reflect ONI's continued operating losses. ONI's financial statements do not include any adjustments that might be necessary to reflect this uncertainty accurately.

*Fluctuations in ONI's quarterly results make financial forecasting difficult and could lead to a substantial stock price decline.*

ONI has experienced significant fluctuations in its revenues and results of operations from one quarter to the next. ONI's quarterly revenue generally comprises only a small number of individual customer orders, and the timing of customer site readiness and revenue recognition for a single order can cause substantial fluctuations in ONI's quarterly results. Its future revenues and results of operations could vary significantly from quarter to quarter due to a number of factors, many of which are outside its control. These factors include changes in demand, customer site readiness and ONI's ability to deliver and install systems in a timely manner, warranty and service claims, the introduction of competing systems, customer budgetary cycles, sales incentives and other competitive pricing pressures. Accordingly, quarter-to-quarter comparisons of ONI's results of operations are not reliable indications of future performance. ONI's revenues or results of operations in a quarter may fall below the expectations of securities analysts or investors, which could lead to a substantial stock price decline.

*ONI's business depends on the successful commercialization of one product, the OrthOne 1.0 Tesla MRI system, and the market for high-field MRI systems for extremities is unproven.*

ONI's success depends on its ability to create a market for dedicated MRI systems for extremities. There may be limited market acceptance of such systems in general, or ONI's system in particular, among orthopedic practices, diagnostic imaging centers and hospitals. ONI's products may not enjoy commercial acceptance or success, which would adversely affect its revenues and results of operations. Because of the early stage of both ONI and the market for extremity MRI systems, it is likely that ONI's evaluation of the potential market demand for these products will vary materially with time. In addition, the introduction by other companies of new products or technologies that compete with ONI's system could reduce market acceptance or make ONI's system obsolete. ONI cannot assure that any significant or profitable market will develop for ONI's extremity MRI systems.

*ONI may not be able to compete effectively because ONI's competitors have far greater resources than ONI.*

ONI is a relatively new entrant in an intensely competitive market that is dominated by a small number of large, well-known companies. ONI's competitors have significantly greater financial, technical, manufacturing, marketing and managerial resources than ONI and might be perceived by customers as offering greater financial and operational stability than ONI. In the orthopedic market, ONI competes primarily with Esaote SpA, an Italian manufacturer of low-field extremity systems. In the hospital and diagnostic imaging center market, ONI competes with manufacturers of whole-body systems, including GE Medical Systems, Hitachi Corporation, Philips N.V., Siemens A.G. and Toshiba Corporation. There can be no assurance that these manufacturers of whole-body systems will not enter the market for extremity MRI systems. ONI may be unable to compete successfully against its current or future competitors, and competition may have a material adverse effect on ONI's business, results of operations and financial condition. ONI's competitors could develop MRI systems that are superior to that of ONI or that achieve greater market acceptance than ONI's system.

*ONI depends heavily on third-party suppliers, which makes it vulnerable to component part failures and to interruptions in supply.*

ONI relies on third-party suppliers for all key components used in its product, including the OrthOne magnet and certain software used to operate the OrthOne system. Relying on third-party suppliers makes ONI vulnerable to interruptions in supply, which could materially impair its ability to ship its product to customers on a timely basis and generate revenue. Generally, ONI does not have long-term supply agreements with its suppliers. Instead, ONI obtains supplies on a purchase-order basis. Lead times to receive ordered components

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vary and can exceed six months or more. If ONI expands its manufacturing capacity, it cannot be sure that its suppliers will furnish the required components when needed. These factors could make it more difficult for ONI to effectively and efficiently manufacture its product. As a result, ONI's sales may suffer.

***GE Medical Systems is currently ONI's sole supplier of the OrthOne magnet, and the loss of GE Medical Systems as a supplier could seriously harm ONI's revenues and results of operations.***

At present, ONI has only one supplier for the OrthOne magnet, GE Medical Systems. The manufacture of the OrthOne magnet is complex, and it would be difficult for ONI to identify, qualify, engage and train a new supplier in a short period of time. Under the agreement between ONI and GE Medical Systems, GE Medical Systems may cease accepting orders for the OrthOne magnet by providing ONI with at least 12 months written notice, in which case ONI would be entitled to place a final order for up to 1-½ times the number of magnets taken in the 12 months before the notice. After April 1, 2006, GE Medical Systems need not provide advance notice of cancellation. If GE Medical Systems were to cancel its supply agreement with ONI and at the time of cancellation ONI had no other supplier for the OrthOne magnet, ONI could face a shortage of OrthOne magnets, which would have a material adverse effect on ONI's ability to generate revenues. Moreover, ONI may be unable to negotiate favorable pricing with any new supplier, which could have a material adverse effect on ONI's results of operations and overall profitability. Finally, because GE Medical Systems, rather than ONI, has been manufacturing the OrthOne magnet for more than four years, ONI may encounter difficulties and delays in training another supplier to manufacture the magnet as efficiently and effectively as GE Medical Systems without its assistance.

***There is currently no ACR accreditation program for extremity MRI facilities, and some third-party payers may not offer reimbursement for MRI scans performed on the OrthOne system.***

The American College of Radiology, or ACR, a medical society for radiologists, has administered an accreditation program for whole-body MRI imaging systems since 1996. Several third-party payers have recognized the ACR accreditation program as a method of demonstrating quality in MRI scanning and reading of images, and require ACR accreditation for providers of MRI services. There is currently no ACR accreditation program for extremity MRI systems, and some third-party payers may not provide reimbursement for MRI scans performed on the OrthOne system, which could limit demand. More widespread adoption of the ACR accreditation program as a requirement for reimbursement could further limit demand and seriously harm our revenues and results of operations. Moreover, the ACR has endorsed the recommendations of the Medicare Payment Advisory Commission to set national standards for performing and interpreting diagnostic imaging studies covered by Medicare. The adoption of any such standards could make it more difficult for physicians other than radiologists to receive reimbursement for performing and interpreting diagnostic imaging studies, which could reduce demand for the OrthOne system and thereby reduce our revenues and results of operations.

***ONI may be unable to keep pace with the rapid technological changes in the MRI industry.***

The industry for magnetic resonance imaging equipment is characterized by extensive research and technological developments and advancements. Any failure by ONI to develop new or enhanced products for the medical marketplace could have a material adverse effect on its financial condition and results of operations. Development by other companies of new or improved products, processes or technologies may make the OrthOne system obsolete or less competitive. ONI's business could be seriously harmed by the introduction of extremity MRI systems with more attractive features, such as higher field strength, lower cost or smaller size. ONI will be required to devote material financial resources to develop and commercialize new products and technologies and to enhance the existing OrthOne system.

*ONI may not meet applicable regulatory requirements, and the failure to comply with any regulation could have serious consequences for ONI's ability to continue to operate its business.*

The manufacture and sale of medical diagnostic devices such as the OrthOne system are subject to extensive government regulation in the United States and in other countries. Federal, state and foreign laws and regulations

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impose numerous requirements on each aspect of the testing, manufacture, labeling, storage, recordkeeping, approval, advertising and promotion of the OrthOne system. Any enforcement action arising from ONI's failure to comply with any government regulation could result in warning letters, judicially and administratively imposed fines and penalties, suspensions of approvals, recalls of OrthOne systems, repairs, replacements, refunds, seizures, operating restrictions, denials of future approvals, withdrawals or suspensions of current product applications, and criminal prosecutions and could affect the manufacturing and marketing of the OrthOne system. Any of these outcomes could seriously harm ONI's reputation, revenues and results of operations, including a potential shutdown of ONI's operations.

Products such as the OrthOne system may be subject to government-mandated or voluntary recall for unforeseen reasons, including component failures, manufacturing errors or design defects. This risk exists even with respect to products with regulatory approval for commercial sale. Claims may be made by customers, patients, distributors, government regulators or others. ONI does not maintain any insurance relating to potential recalls.

The United States Food and Drug Administration, or FDA, as well as foreign regulatory agencies, continue to review products even after they have received initial regulatory approval. The manufacturing and marketing of these products will be subject to continuing regulation, including compliance with current Quality Systems Regulations and Good Manufacturing Practices, known as QSRs and GMPs, adverse event reporting requirements and prohibitions on promoting a product for unapproved uses. ONI's third-party suppliers of product components are also subject to compliance with the FDA requirements for QSR/GMP and other requirements. The FDA could withdraw a previously approved product such as the OrthOne system from the market upon receipt of newly discovered information, including a failure to comply with regulatory requirements, the occurrence of unanticipated problems with products following approval, or other reasons, any of which could adversely affect ONI's reputation, revenues, results of operations and financial condition.

***If ONI fails to obtain or maintain necessary FDA clearances for the OrthOne system or similar clearances in non-U.S. markets, or if such clearances are delayed, ONI will be unable to commercially distribute and market the OrthOne system.***

Before marketing any medical device in the United States, ONI must generally first receive clearance from the FDA, which is referred to as 510(k) clearance. This clearance process can be lengthy and expensive. The FDA's 510(k) clearance process generally takes less than six months from the date the application is submitted, but can take longer. Although ONI has obtained 510(k) clearance for the OrthOne system, its 510(k) clearance can be revoked if safety or effectiveness problems develop. ONI expects that its product currently under development will require 510(k) clearance. ONI may be unable to obtain additional clearances in a timely fashion or at all. Delays in obtaining clearance or the revocation of existing clearances could seriously harm ONI's revenues and profitability.

In many foreign countries in which ONI markets the OrthOne system, ONI is subject to regulations affecting, among other things, product standards, packaging requirements, labeling requirements, import restrictions, tariff regulations, duties and tax requirements. Many of these regulations are similar to those of the FDA. In addition, in many countries the national health or social security organizations require ONI's products to be qualified before procedures performed using its products become eligible for reimbursement. Failure to receive, or delays in the receipt of, relevant foreign qualifications could have a material adverse effect on ONI's business, financial condition and results of operations. Due to the evolving harmonization of standards in the European Union, ONI expects a changing regulatory environment in Europe characterized by a shift from a country-by-country regulatory system to a European Union-wide single regulatory system. ONI cannot predict changes of this harmonization and its effect on ONI. Adapting ONI's business to changing regulatory systems could have a material adverse effect on ONI's business, financial condition and results of operations.

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***Modifications to the OrthOne system may require new FDA clearance or similar clearances in non-U.S. markets or require ONI to cease marketing or recall the modified OrthOne system until these clearances are obtained.***

Any modification to a medical device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, generally requires a new FDA 510(k) clearance. Other countries have comparable regulatory requirements. The FDA requires every manufacturer to make this determination, but the FDA can review any such determination. ONI may make modifications to the OrthOne system, and in appropriate circumstances, determine that new clearance is unnecessary. The FDA may not agree with the decision not to seek new clearance. If the FDA requires that ONI seek 510(k) clearance for any modification not previously cleared, ONI may be required to cease marketing or recall the modified device until it obtains this clearance, which could seriously harm ONI's reputation, revenues and results of operations. Also, in some circumstances, such as the FDA's disagreement with the decision not to seek new clearance, ONI may be subject to significant regulatory fines or penalties.

***Reductions in third-party reimbursement may reduce market acceptance of ONI's products, resulting in lower sales in the United States and abroad.***

There has been a consistent downward trend for MRI reimbursement rates, and ONI anticipates that the trend will continue for the foreseeable future. This trend may result in lower sales in the United States and abroad.

ONI depends on third-party reimbursement to its customers for market acceptance of its products. Failure of third-party payors, such as the government or private health insurers, to provide appropriate levels of reimbursement for use of ONI's products would harm ONI's business and prospects. In the United States, Medicare reimbursement rates are established by the United States Department for Health and Human Services Centers for Medicare and Medicaid Services, or CMS, the government agency that administers Medicare and Medicaid. The actual reimbursement amounts are determined by individual state Medicare carriers and, for non-Medicare and Medicaid patients, by private insurance carriers. There are often delays between the reimbursement approvals by CMS and by a state Medicare carrier and private insurance carriers. Moreover, states as well as private insurance carriers may choose not to follow the CMS reimbursement guidelines.

The use of ONI's products outside the United States is similarly affected by reimbursement policies adopted by foreign regulatory and insurance carriers. A reduction or other adverse change in reimbursement policies for the use of ONI's products could harm ONI's business and prospects.

***The time needed to modify a customer facility may cause delays in shipping ONI's products and in recognizing revenue from sales of the products.***

The OrthOne system generally requires each customer to make some modifications to its facility before ONI installs the system. The cost and the amount of time needed to make the necessary modifications to a customer facility varies widely and depends completely on the customer. Historically, site preparation has taken from as little as one month to longer than one year. Delays in shipping and in revenue recognition resulting from site readiness could adversely affect ONI's revenues, results of operations and financial condition.

***ONI relies on distributors for its international sales, and ONI's failure to manage successfully its relationships with these distributors could cause its revenue to decline and harm its business.***

ONI relies on a number of distributors for its international sales, including sales in the European Union and Canada. These distributors also fulfill warranty and service obligations to customers outside the United States (except Canada). The activities of these distributors are not within ONI's direct control. ONI's failure to manage its relationships with these distributors effectively could impair the effectiveness of ONI's international sales, marketing and customer support strategy. A reduction in the sales efforts, technical capabilities or financial viability of these distributors, a misalignment of interest between ONI and them, or the termination of ONI's relationship with a distributor could adversely affect ONI's sales, financial results and ability to support its



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customers. ONI's distributors are engaged under long-term contracts, which typically have an initial term of four years. It generally takes three to six months for a distributor to become educated about ONI's products and capable of providing quality sales and technical support to ONI's customers. If any distribution relationship were to terminate, sales to current and prospective customers could be disrupted or delayed, and ONI could experience a diversion of time and resources as it seeks to identify, qualify, engage and train a replacement.

*ONI's business is highly dependent on its ability to successfully manufacture and assemble its products.*

ONI has manufactured and installed an aggregate of 70 units as of June 30, 2005, all of which require precise, high-quality manufacturing. Failure to achieve and maintain high manufacturing standards, including the incidence of manufacturing errors, design defects or component failures, could result in patient injury, product recalls or withdrawals, delays or failures in product testing or delivery, cost overruns or other problems that could seriously hurt ONI's business.

Despite its efforts, ONI cannot completely eliminate the risk of errors, defects or failures. The manufacturing of products is and will continue to be complex and costly, requiring a number of separate processes and components and skill and diligence by ONI's personnel and third-party suppliers. ONI may experience difficulties in manufacturing its product, including problems related to quality control and assurance, component and service availability, adequacy of control policies and procedures, and lack of skilled personnel. If ONI is unable to hire, train and retain enough experienced and capable scientific, technical and manufacturing workers, it may be unable to manufacture sufficient quantities of its products at an acceptable cost and on time, which could limit market acceptance of its products or otherwise damage ONI's financial performance and prospects.

*Significant unanticipated warranty or service claims could substantially increase ONI's costs and generate additional losses.*

If ONI experiences an increase in warranty or service claims, it could incur unanticipated expenditures for parts and service, which would adversely affect its results of operations. ONI generally warrants each of its products against defects in materials and workmanship for a period of one year. ONI has also entered into long-term service maintenance agreements with certain customers pursuant to which it has agreed to provide all necessary maintenance and services for a fixed fee. Although ONI has established reserves for its product warranty obligations, unforeseen warranty exposure in excess of those reserves could adversely affect its results of operations. In addition, any non-routine defects or operating problems could seriously damage ONI's reputation and goodwill in the market for MRI systems.

*ONI may be unable to retain its key personnel, which could adversely affect its ability to conduct its operations.*

ONI depends heavily on the principal members of its management and scientific staff. ONI does not have any employment agreements with any of its personnel. Accordingly, any of ONI's key personnel could resign immediately without notice to ONI, which could seriously harm ONI's ability to conduct its operations.

ONI depends upon the continued services of Robert L. Kwolyk, its co-founder and President and Chief Executive Officer since inception. Loss of his services could seriously harm ONI's business and prospects and its ability to market and sell the OrthOne system. Similarly, the services of Dr. Peter B. Roemer, the co-founder of ONI and its Senior Vice President and Chief Technology Officer, are integral to ONI's product development efforts. Loss of his services could result in material delay in ONI's development of new products.

*ONI may be unable to hire and retain the skilled personnel it needs to expand its operations.*

To meet its growth objectives, ONI must attract and retain additional highly skilled sales and marketing, managerial and technical personnel. If it fails to attract and retain the necessary personnel, it may be unable to achieve its business objectives and may lose its competitive position, which could lead to a significant decline in revenue. ONI faces significant competition for these skilled professionals from other companies and organizations.

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***In certain states, MRI systems can only be purchased through a Certificate of Need program, which may prohibit potential customers from purchasing the OrthOne system.***

Certificate of Need programs vary from state to state and are designed to ensure that new healthcare services and facilities are developed only as needed, based on publicly-developed measures of cost effectiveness, quality of care, and geographic and financial access to care. If state governments begin to make the acquisition of a Certificate of Need more difficult for ONI's potential customers or discourage sales of the OrthOne system in areas already served, ONI's sales will suffer, which could have a material adverse effect on ONI's revenues and results of operations.

***The market for used or refurbished whole-body MRI systems may limit ONI's growth.***

ONI relies on, among other things, its competitive pricing advantage when competing with whole-body MRI companies. It could become increasingly difficult for ONI to sell its products if other vendors expand their efforts to sell used or refurbished systems to ONI's potential customers. The continued growth of such a secondary market in used or refurbished MRI systems could seriously harm ONI's business, prospects and results of operations.

***ONI may enter into fee-for-scan programs, and the inability or refusal of any customer to pay required fees could adversely affect ONI's revenues and results of operations.***

On a limited basis, ONI offers a fee-for-scan program to selected customers. Under this program, customers have the option of paying for the OrthOne system on a per-scan basis. Non-payment by customers under this program could adversely affect ONI's financial results. ONI retains ownership of the system until all required payments are made. ONI has only a limited ability to evaluate potential customers and their creditworthiness. In the event of a breach of the agreement, ONI may encounter difficulties or significant expenses in attempting to repossess its systems. ONI may also have to accept the return of systems under this program.

***ONI has only limited protection for its intellectual property, and competitors could circumvent those protections.***

ONI's ability to compete effectively depends in part on its ability to protect the design of the OrthOne system and its other proprietary technology. The steps ONI has taken to protect its proprietary technology may be inadequate to prevent others from using what ONI regards as its technology to compete with ONI. Any misappropriation of ONI's technology or the development of competing technology could seriously harm ONI's competitive position, which could lead to a substantial reduction in revenue. ONI does not have any patents. ONI seeks to protect its proprietary technology primarily under laws affording protection for trade secrets and also seeks copyright and trademark protection for its products and developments where appropriate. These laws provide only limited protection. Confidentiality agreements with employees, consultants and other parties could be breached, ONI may not have adequate remedies for any breach, and ONI's trade secrets and other proprietary information could otherwise become known. In addition, other companies could independently develop technologies that are similar or superior to ONI's technology or reverse engineer its products. Moreover, the laws of foreign countries in which ONI sells its products may afford little or no protection to its intellectual property rights, which could increase the likelihood of misappropriation.

ONI may have to take legal action to protect its trade secrets or other proprietary information. Any legal action of that type could be burdensome, disruptive and expensive and distract the attention of management, and ONI might not prevail.

*Claims by others that ONI infringes their intellectual property rights could seriously harm ONI's business and financial condition.*

The medical device industry has been characterized by extensive litigation regarding patents and other intellectual property rights. Any claim of infringement against ONI could cause it to incur substantial costs

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defending against the claim, even if the claim is invalid, and could distract the attention of ONI's management. If ONI's products or technology is found to violate third-party proprietary rights, ONI may be required to pay substantial damages. In addition, ONI may be required to re-engineer its products or seek to obtain licenses from third parties to continue to offer its products. Any efforts to re-engineer its products or obtain licenses on commercially reasonable terms may not be successful, which would prevent ONI from selling its products, and, in any case, could substantially increase its costs and have a material adverse effect on its business, financial condition and results of operations.

ONI does not conduct comprehensive patent searches to determine whether other persons may have patents or patent applications that cover any portion of ONI's products or technology. In an evolving technological environment, product development is inherently uncertain, and there may be pending patent applications that may cover ONI's products or technology. Accordingly, other persons may have or obtain patents that will prevent, limit or interfere with ONI's ability to make, use or sell its products in the United States or international markets.

***If ONI is unable to maintain adequate product liability insurance, it may have to pay significant monetary damages in a successful product liability claim.***

The manufacture and sale of any diagnostic medical device such as the OrthOne system entail an inherent risk of product liability, including claims of injury from use of the system or the failure to detect a disorder. If ONI is exposed to product liability claims for which it has insufficient insurance, it may be required to pay significant damages, which could seriously harm its financial condition and results of operations. Product liability insurance is generally expensive for companies such as ONI. Accordingly, ONI maintains only limited product liability insurance coverage. ONI's current levels of insurance or any insurance it may subsequently obtain may not provide adequate coverage against potential claims. In addition, ONI may be unable to renew its policies on commercially reasonable terms or obtain additional product liability insurance on acceptable terms, if at all. Any product liability claim brought against ONI, regardless of merit, could increase ONI's product liability insurance rates or prevent ONI from securing insurance coverage in the future.

***ONI's international sales may be limited by complex regulatory, economic, business, insurance and other factors.***

ONI expects that a portion of its revenues will be derived from sales to customers outside the United States. These sales may be less profitable for ONI than domestic sales and may cause ONI to incur substantial expenses without corresponding benefit. As a medical device, the OrthOne system is subject to rigorous and varying regulation in international markets, and sales into new international markets may require compliance with additional burdensome regulations, which could be costly. Because ONI's international distributors fulfill customers' warranty and service needs, ONI does not obtain service maintenance contracts for OrthOne systems sold outside the United States and therefore derives no ongoing service revenue with respect to those systems. In addition, international sales may involve longer sales cycles and greater difficulties in collecting accounts receivable, and any increase in international sales could magnify any adverse consequences arising from currency fluctuations, political or economic instability in foreign markets, or changes in trading policies, reimbursement practices, regulatory requirements, tariffs, or other barriers.

***ONI may have difficulty in identifying and competing for acquisition opportunities.***

ONI's business strategy includes the pursuit of strategic acquisitions to broaden its product line and otherwise improve its business prospects. Although ONI currently does not have any commitments or agreements with respect to any acquisitions, it intends to explore potential acquisitions of strategically complementary product lines, business divisions or companies. ONI may be unable to identify suitable acquisition candidates. In addition, ONI expects to face competition from other companies for acquisition candidates, making it more difficult to acquire suitable companies on favorable terms.



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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The forward-looking statements in this proxy statement are made under the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Our operating results and financial condition have varied and may in the future vary significantly depending on a number of factors. Statements in this proxy statement which are not strictly historical statements, including, without limitation, statements regarding management's expectations regarding the ONI merger, the future business of ONI, the staged wind-down of our VBT business, future strategic transactions, if any, possible liquidation and dissolution and future revenues from the sale of our VBT products, as well as statements regarding our strategy and plans, constitute forward-looking statements that involve risks and uncertainties. In some cases these forward-looking statements can be identified by the use of words such as may, will, should, expect, project, predict, potential or the negative of these words or comparable words. The factors listed under Risk Factors beginning on page 13, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this proxy statement and presented elsewhere by management from time to time. These factors, among others, may have a material adverse effect upon our business, financial condition, and results of operations. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made.

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**SPECIAL MEETING OF SHAREHOLDERS**

This proxy statement and the accompanying form of proxy are being furnished to holders of record of our common stock on [ ] in connection with the solicitation of proxies by our board of directors for use at a special meeting of shareholders in lieu of an annual meeting, to be held on [ ], 2005, at the Atlanta Marriott Gwinnett Place, 1775 Pleasant Hill Road, Duluth, Georgia, commencing at 8:30 a.m., local time, and at any adjournment or postponement of that meeting.

**Purposes of the Meeting**

At the special meeting, we are asking holders of record of our common stock to consider and vote on the following proposals:

1. The issuance of shares of our common stock to the holders of equity securities of ONI Medical Systems, Inc., a privately held Delaware corporation, pursuant to the terms of a merger agreement with ONI under which ONI will become our wholly owned subsidiary;
2. An amendment to our amended and restated articles of incorporation to increase the authorized number of shares of our common stock from 25,000,000 to 75,000,000;
3. An amendment to our amended and restated articles of incorporation to change our name from Novoste Corporation to ONI Medical Systems, Inc.;
4. The election of two directors to our board of directors;
5. A proposal to adjourn the meeting to permit further solicitation of proxies; and
6. Any other business properly presented at the special meeting or any postponements or adjournments thereof.

Approval of proposal 1 is conditioned on the approval of proposals 2 and 3. Further, if the merger described in proposal 1 is not consummated, then the amendment to authorize additional shares described in proposal 2 and the name change of Novoste described in proposal 3 will not be effected. Therefore, you should consider proposals 1, 2 and 3 together. If any of proposals 1, 2 or 3 is not approved, none of them will be implemented. The merger cannot be completed unless our shareholders approve it. Your vote is very important.

**Recommendation of our Board of Directors**

Our board of directors has unanimously (with one director recused from the matters) determined that our merger with ONI and the related merger agreement are advisable, fair to and in the best interests of our shareholders, has approved the merger agreement, the share issuance and



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the two amendments to our articles of incorporation, and has recommended that you vote FOR the share issuance and the two amendments. Our full board of directors has further unanimously approved, and recommended that you vote FOR, the other proposals described in this proxy statement.

### **Record Date; Shares Entitled to Vote; Quorum Requirement**

Our board of directors has fixed the close of business on [ ], 2005 as the record date for the determination of shareholders entitled to notice of and to vote at the special meeting. Accordingly, only holders of record of shares of our common stock at the close of business on the record date will be entitled to notice of, and to vote at, the special meeting. At the close of business on the record date, there were [ ] shares of our common stock outstanding and entitled to vote, held by approximately [ ] record holders.

Each record holder of shares of our common stock on the record date is entitled to cast one vote per share on each proposal properly submitted for the vote of shareholders at the special meeting. Votes may be cast either in person or by properly executed proxy.

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The presence in person or by properly executed proxy of the holders of a majority of the outstanding shares of common stock on the record date is necessary to constitute a quorum for the transaction of business at the special meeting. If a quorum is not present at the meeting, the shareholders present may adjourn the meeting from time to time, without notice, other than by announcement at the meeting, until a quorum is present or represented. Shares represented by proxies that are marked ABSTAIN and broker non-votes will be counted as present for the purpose of determining the presence or absence of a quorum at the meeting. A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote those shares on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

### **Required Vote; Broker Voting Procedures**

The approval of proposal 1 (the issuance of shares of our common stock pursuant to the merger agreement) requires the affirmative vote of a majority of the total votes cast on the proposal. Only shares that are voted FOR or AGAINST the proposal will be counted towards the vote requirement. Thus, shares represented at the meeting that are marked ABSTAIN, and broker non-votes, if any, will not be counted towards the vote requirement. Additionally, if you do not complete and return a proxy card and do not vote in person, there will be no effect on the outcome of the vote on the proposal.

The approval of each of proposals 2 and 3 (the amendments to our articles of incorporation to increase the authorized number of shares of our common stock and to change our name from Novoste Corporation to ONI Medical Systems, Inc.) requires that the number of votes cast by the shareholders at the special meeting in favor of the applicable proposal exceed the number of votes cast against the proposal. Only shares that are voted FOR or AGAINST the proposal will be counted towards the vote requirement. Thus, shares represented at the meeting that are marked ABSTAIN, and broker non-votes, if any, will not be counted towards the vote requirement. Additionally, if you do not complete and return a proxy card and do not vote in person, there will be no effect on the outcome of the vote on either proposal.

A plurality of the total votes cast by the holders of our common stock is required to elect each of the two directors (proposal 4). You may vote FOR each director nominee or you may WITHHOLD AUTHORITY for each director nominee separately. Only shares that are voted in favor of a particular nominee will be counted towards that nominee's achievement of a plurality. Thus, shares represented at the meeting that are not voted for a particular nominee, shares present in person or represented by proxy where the shareholder properly withholds authority to vote for the nominee, and broker non-votes, if any, will not be counted towards the nominee's achievement of a plurality.

The approval of proposal 5 (the proposal to adjourn the meeting to permit further solicitation of proxies) requires that the number of votes cast by the shareholders at the special meeting in favor of the proposal exceed the number of votes cast against the proposal. Only shares that are voted FOR or AGAINST the proposal will be counted towards the vote requirement. Thus, shares represented at the meeting that are marked ABSTAIN, and broker non-votes, if any, will not be counted towards the vote requirement. Additionally, if you do not complete and return a proxy card and do not attend the special meeting and vote in person, there will be no effect on the outcome of the vote on the proposal.

### **Voting by Directors and Executive Officers**

At the close of business on the record date, our current directors and executive officers beneficially owned and were entitled to vote approximately 8.3% of our common stock outstanding on that date. Each of our current directors and executive officers has entered into a voting agreement with ONI pursuant to which he or she has agreed to vote his or her shares in favor of proposals 1, 2 and 3.

**Voting**

As described below, you may vote by proxy or in person at the special meeting.

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### *Voting in Person*

If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the meeting. Please note, however, that if your shares are held in street name, which means your shares are held of record by a broker, bank or other nominee, and you wish to vote at the meeting, you must bring to the meeting a proxy from the record holder of the shares authorizing you to vote at the meeting.

### *Voting by Proxy*

Shares of our stock represented by properly executed proxies received at or before the meeting and not revoked will be voted in the manner specified on such proxies. Properly executed proxies that do not contain voting instructions will be voted FOR each of the proposals. If any other matters are properly brought before the special meeting, it is the intention of the persons named in the enclosed proxy card to vote the proxy in accordance with their best judgment. Properly executed proxies marked ABSTAIN, although counted for purposes of determining whether there is a quorum at the meeting, will not be voted.

The enclosed proxy provides that you may vote your shares of common stock FOR the director nominees or you may WITHHOLD AUTHORITY for the nominees, and that you may vote FOR, AGAINST or ABSTAIN from voting with respect to each of the other proposals. The board of directors recommends that you vote FOR each of the two (2) director nominees named in this proxy statement and FOR each of the other proposals.

## **Revocation of Proxies**

A shareholder giving a proxy has the power to revoke it at any time before the vote is taken at the special meeting by:

submitting to our secretary a written instrument revoking the proxy;

submitting a duly executed proxy bearing a later date; or

voting in person at the meeting.

Any written notice of revocation or subsequent proxy should be sent so that it is delivered to us at 4350 International Boulevard, Norcross, Georgia, 30093, Attention: Secretary, or hand-delivered to our secretary at that address, at or before the taking of the vote at the special meeting.

## **Solicitation of Proxies**

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Proxies are being solicited on behalf of our board of directors. We will pay the costs and expenses incurred in connection with the printing and mailing of this proxy statement and the solicitation of the enclosed proxy. In addition to solicitation by mail, our directors, officers and employees may solicit proxies in person or by other means of communication. Our directors, officers and employees will receive no additional compensation for such services, but we may reimburse them for reasonable out-of-pocket expenses in connection with such solicitation. Some of these directors and executive officers may have interests in the proposed merger that differ from yours, as described in Approval of Issuance of Shares in the ONI Merger Interests of Certain Novoste and ONI Persons in the Merger. Brokers, custodians, nominees and fiduciaries will be requested to forward proxy solicitation materials to the beneficial owners of shares held of record by them, and we will reimburse them for the reasonable, out-of-pocket expenses they incur in doing so. We have also retained Morrow & Co., Inc., to aid in the proxy solicitation at an estimated cost of up to \$50,000, plus expenses.

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**Assistance**

If you need assistance in completing your proxy card or have questions regarding the special meeting, please contact:

Novoste Corporation  
4350 International Boulevard  
Norcross, Georgia 30093  
Attention: Daniel G. Hall, Esq., General Counsel  
Phone: (770) 717-0904

Morrow & Co., Inc.  
445 Park Avenue  
New York, New York 10022  
Phone: (800) 654-2468

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**APPROVAL OF ISSUANCE OF SHARES IN THE ONI MERGER**

**(Proposal 1)**

We entered into the merger agreement with ONI on May 18, 2005. ONI is engaged in the development, manufacturing and marketing of dedicated-purpose magnetic resonance imaging systems. You are being asked to consider and vote on the issuance of shares of our common stock to the holders of ONI capital stock, options and warrants pursuant to the merger agreement as consideration for our acquisition of all of ONI's equity securities pursuant to the terms of the merger agreement.

The following is a description of the material aspects of the merger. Although we believe that this description covers the material terms of the merger, the description may not contain all of the information that is important to you. We encourage you to read carefully this entire proxy statement, including the merger agreement attached to this document as *Annex A*, for a more complete understanding of the merger. The following description is subject to, and is qualified in its entirety by reference to, the merger agreement.

**General**

If the merger is completed, we will acquire all of the outstanding equity securities of ONI. As consideration for this acquisition, we will issue shares of our common stock to the holders of ONI's common and Series A preferred stock, and options and warrants to purchase ONI common and Series A preferred stock will be converted into options and warrants to purchase our common stock.

The merger agreement provides that, at the time of the merger, our wholly owned subsidiary, ONIA Acquisition Corp., will merge with and into ONI, whereupon ONI will become our wholly owned subsidiary and the outstanding equity securities of ONI will be converted into the right to receive shares of our common stock. The total number of shares of our common stock to be issued if the merger is completed (including upon exercise of assumed ONI options and warrants) will be determined at the time of closing based on a formula that values us at the value of our net cash assets at closing and values ONI at \$20,000,000 (solely for purposes of this calculation). We anticipate that completion of the merger will result in the current holders of ONI's equity securities owning a majority of our common stock.

**Nasdaq Requirement for Shareholder Approval**

The Nasdaq Stock Market's regulations require that we obtain the approval of our shareholders in connection with any transaction, other than a public offering, involving the sale or issuance by us of common stock (or securities convertible into, or exercisable for, common stock) equal to 20% or more of the common stock, or 20% or more of the voting power of our securities, outstanding before the issuance of the common stock in connection with that transaction. As a result, even though the share issuance is not required to be approved by our shareholders under the terms of the Florida Business Corporations Act, shareholder approval is required under the Nasdaq regulations.

**Potential De-Listing of our Common Stock from the Nasdaq National Market**

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Although our common stock is currently listed on the Nasdaq National Market, a regular trading market for our common stock may not exist or be sustained in the future, in which case you should consider your investment in our common stock illiquid. On April 21, 2005, we received a notice from the Nasdaq Stock Market indicating that we were not in compliance with the Nasdaq Stock Market's requirements for continued listing because, for the previous 30 consecutive business days, the bid price of our common stock had closed below the minimum \$1.00 per share requirement for continued inclusion under Nasdaq Marketplace Rule 4450(a)(5). We have until October 18, 2005, to achieve compliance with the minimum requirements for continued listing. If we do not regain compliance with the minimum requirements for continued listing by October 18, 2005, the Nasdaq staff will provide us with written notification that our common stock will be delisted from the Nasdaq National Market.



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In addition, we have been preliminarily informed by Nasdaq staff that our merger with ONI will constitute a change of control transaction, or reverse merger, requiring us to meet Nasdaq's initial listing requirements at the time of closing. These requirements include that our shareholder equity immediately after the merger exceeds \$30 million, and that our common stock satisfies a \$5 per share minimum bid price immediately after closing. We have determined that our shareholder equity immediately after the merger would not satisfy this requirement. As a result, if we are unable to convince Nasdaq staff that the merger does not constitute a reverse merger, we anticipate that our common stock will be unable to remain listed on the Nasdaq National Market after the merger.

If we are unable to retain the listing of our common stock on the Nasdaq National Market, we and ONI intend to attempt to obtain a new listing on the Nasdaq SmallCap Market or American Stock Exchange. To obtain a new listing on the Nasdaq SmallCap Market, we anticipate that our common stock will need to satisfy a \$4 per share minimum bid price requirement immediately after closing. To obtain a new listing on the American Stock Exchange, we anticipate that our common stock will need to satisfy either a \$3 per share minimum bid price requirement or a \$50 million market capitalization requirement immediately after closing. Based on the recent trading price of our common stock, we do not anticipate that our common stock would be able to satisfy either of these requirements unless we completed a reverse share split, in which shares of our common stock would be combined to increase the percentage ownership interest that each share represents. Our board of directors is permitted under Florida law to authorize a reverse share split without the approval of our shareholders, and may consider authorizing such a split to obtain a listing on the Nasdaq SmallCap Market or American Stock Exchange.

If we are unable to retain our listing on the Nasdaq National Market, or obtain a new listing on the Nasdaq SmallCap Market or American Stock Exchange, we may seek to have our stock quoted on the NASD's OTC Bulletin Board, which is an inter-dealer, over-the-counter market that provides significantly less liquidity than the Nasdaq National Market, Nasdaq SmallCap Market or American Stock Exchange. Quotes for stocks included on the OTC Bulletin Board are not as widely listed in the financial sections of newspapers as are those for the Nasdaq National Market. Therefore, prices for securities traded solely on the OTC Bulletin Board may be difficult to obtain and holders of our common stock may be unable to resell their securities at any price. See **Risk Factors** **Risks Related to the Combined Company**.

## **Required Vote**

The approval of the share issuance requires the affirmative vote of a majority of the total votes cast on the proposal. Only shares that are voted **FOR** or **AGAINST** the proposal will be counted towards the vote requirement. Thus, shares represented at the meeting that are marked **ABSTAIN**, and broker non-votes, if any, will not be counted towards the vote requirement. Additionally, if you do not complete and return a proxy card and do not attend the special meeting, there will be no effect on the outcome of the vote on the proposal.

## **Background of the Merger**

For several years, our board of directors had been considering various strategic alternatives in anticipation of the potential impact should drug-eluting stents come to market. In the latter part of 2000, the board considered various opportunities to sell Novoste to strategic buyers, merge with potential partners or acquire other technologies which could leverage our distribution and organizational strengths. Throughout 2001 and 2002, the board considered more than 70 companies after organizing a team composed of several board members and senior managers to screen opportunities. During this period, the board also considered various development projects within Novoste and the likelihood of successful introduction into the market.

Our business and revenues began a steady and rapid decline during 2003 due to, we believe, the approval by the FDA in April 2003 of the market release of drug-eluting stents. In anticipation of this new product technology, our management and board of directors accelerated our

exploration and review of various strategic opportunities and alliances available to us, as well as restructuring activities, shortly after the appointment in October 2002 of Mr. Novak as our President and Chief Executive Officer. In April 2003, we engaged a financial

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adviser to assist us in our review of the strategic alternatives that were available to us and to assist us in our bid for a medical device company that was offered for sale. We were unsuccessful in our bid and we allowed our engagement with this financial adviser to expire. In addition, in anticipation of the impact of drug-eluting stents upon our business, we engaged during 2003 in a restructuring of our organization and significantly reduced our work force over the course of three separate staff reductions. As a result, by the end of 2003, nearly 30% of our workforce had been terminated. Our cost reduction program continued into the first and second quarters of 2004 and included, among other things, the consolidation of all our U.S. operations into a single building. Specifically, at the end of the first quarter of 2004, we implemented a reduction in force, eliminating 84 positions across all functions. This reduction lowered annual operating costs by approximately \$6,000,000. During the first quarter of 2004, approximately 59 of the individuals left Novoste, with the remaining individuals leaving during the second and third quarters. In February 2005, we announced that we were reducing our remaining United States workforce in the first quarter of 2005 by 52 employees, from 81 employees, and terminating the 16 employees we had at that time outside the U.S. in accordance with their contracts and the relevant country's employment regulations. We currently have 26 employees, two of whom are employed outside the U.S.

In April 2004, our board of directors, upon the recommendation of management, approved the engagement of Asanté Partners as our investment banking and strategic financial adviser to assist us with our efforts to identify and implement strategic and financial alternatives.

Since April 2004, we and Asanté Partners have identified over 75 businesses as potential candidates for a business combination transaction with us and preliminarily evaluated the merits and likelihood of entering a transaction with each such entity. Novoste and Asanté Partners contacted 67 of those entities to determine their interest in a strategic transaction and held substantial discussions with 10 of those companies.

In September 2004, we and our advisers had engaged in discussions with a European company in the radiation business. The European company had expressed an interest in acquiring our VBT business to complement its other businesses in the United States. The initial proposal submitted by the European company was for it to make a tender offer for all of our outstanding common stock. Before the commencement of its due diligence efforts on our VBT business, the European company had proposed a preliminary per share tender offer price of \$1.05 per share.

We subsequently expanded our search for strategic alternatives outside the cardiology, vascular and radiation therapy fields. On December 14, 2004, Mr. Stephen Shapiro, a member of our board of directors, met with Mr. Novak and advised him of a potential opportunity for us with ONI, a company headquartered in Wilmington, Massachusetts that develops, manufactures and markets dedicated-purpose magnetic resonance imaging systems. Mr. Shapiro is also a director of ONI. Mr. Novak also was informed that Galen Partners IV, LP, to which Mr. Shapiro has provided independent consulting services in the past, is a controlling shareholder of ONI. On December 14, 2004, Mr. Shapiro called Mr. Bruce Wesson, the chairman of the ONI board of directors and the managing director of Galen Partners IV, LP, which at the time owned approximately 36.8% of ONI's common stock on a fully diluted basis. During the call, Mr. Shapiro proposed that the companies explore a potential business combination.

On December 15, 2004, Mr. Novak advised our board of Mr. Shapiro's communication and provided our board with basic information about ONI.

Also on December 15, 2004, Mr. Wesson contacted Mr. Robert Kwolyk and Ms. Darlene Deptula-Hicks, the chief executive officer and chief financial officer of ONI, respectively, to discuss his conversations with Mr. Shapiro and solicited Mr. Kwolyk's and Ms. Deptula-Hicks' views concerning a possible business combination between ONI and Novoste. During the call, Mr. Wesson suggested that ONI engage a financial adviser to assist senior management with their evaluation of any possible transaction. The potential engagement of First Albany Capital Inc. as a financial adviser was discussed at length because First Albany had a prior working relationship with a member of ONI's senior management and because of its substantial experience in similar transactions.



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Later that day, Ms. Deptula-Hicks contacted Jeff Barlow of First Albany to discuss the potential engagement of First Albany to assist ONI management in its analysis of a potential combination with Novoste.

On December 16, 2004, Mr. Kwolyk and Ms. Deptula-Hicks held a conference call with First Albany and ONI's legal counsel, Foley Hoag LLP, to discuss their preliminary assessment of the potential risks and liabilities and strategic and financial benefits of a business combination with Novoste. During this call, the parties discussed potential structures for a transaction and the expected valuations for each company.

At a December 17, 2004 meeting of the Novoste board of directors, Mr. Novak reported to our board, in more detail, regarding the ONI opportunity. Mr. Novak advised the board, among other things, that ONI currently had a commercial product, but was in need of cash for further development and market expansion.

In addition, Mr. James McLaren of Asanté Partners reported to the Novoste board at the December 17, 2004 meeting that during the prior week, he had engaged in conversations with Mr. Shapiro and Mr. Wesson and had confirmed that Galen Partners and ONI management were interested in pursuing a strategic transaction between ONI and Novoste. He advised the board that ONI was a relatively small business, but that it had generated revenues selling its dedicated-purpose magnetic resonance imaging system and that Galen Partners believed the market for the system could be substantial in the United States. He reported further that the founders of ONI were former executives of General Electric Company, who had significant experience in the magnetic resonance imaging industry.

Mr. Novak visited the offices and facilities of ONI on December 20 and 21, 2004. During these visits Mr. Novak met with ONI's management and the individuals at ONI responsible for the development of new products and toured the facilities. Mr. Novak engaged in discussions with ONI's management regarding a potential strategic transaction involving the two companies as well as the interest of ONI's management in such a strategic transaction.

On December 19, 2004, Ms. Deptula-Hicks had discussions with Ernst & Young LLP to discuss a potential engagement to assist ONI with due diligence in connection with a possible transaction with Novoste. Ernst & Young has been ONI's independent auditor since 2002 and also has been our independent auditor since 1992.

The morning of December 23, 2004 Mr. Wesson received a letter from Mr. McLaren of Asanté Partners. The letter confirmed that Novoste believed that a merger with ONI was an attractive opportunity and proposed a transaction whereby Novoste would acquire ONI for a combination of cash and stock.

On December 31, 2004, ONI engaged First Albany to assist ONI senior management in evaluating and negotiating a potential transaction with Novoste.

A regular meeting of the ONI board of directors was held telephonically on January 4, 2005. The board had a lengthy discussion regarding possible venture financing sources for ONI and the potential for a business combination with Novoste. The ONI board discussed the competitive dynamics affecting Novoste's business, the anticipated costs and benefits of merging with a public company, and the economic considerations of pursuing a strategic transaction with Novoste. The ONI board was supportive of ONI senior management having continued discussions with Mr. Novak with the goal of developing a common understanding of the rationale and acceptable terms of a potential transaction. The ONI board then authorized ONI senior management to deliver a letter of intent to Novoste.

On January 5, 2005, ONI delivered a proposed letter of intent to Mr. Novak. ONI proposed a transaction in which ONI would merge with a subsidiary of Novoste in exchange for Novoste common stock. The letter of intent included an exclusivity period and confidentiality provisions.

Our board of directors met on January 7, 2005. Representatives from Hogan & Hartson L.L.P., our legal counsel, and Asanté Partners were present at the meeting. Both the potential ONI transaction and the status of negotiations with the European company were discussed and reviewed by the board and its advisors.

The representatives from Hogan & Hartson L.L.P. discussed with the board the fiduciary duties and responsibilities of our board members with respect to the board's analysis of the potential transactions being discussed.

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Mr. McLaren of Asanté Partners reviewed with the board the proposal being made by ONI. Mr. McLaren advised the board that the proposed transaction would entail Novoste acquiring ONI by a merger pursuant to which ONI would become a wholly owned subsidiary of Novoste and all outstanding ONI equity securities would be converted into the right to receive shares of our common stock. Based upon the preliminary anticipated valuations of ONI and Novoste, Mr. McLaren indicated that it was expected that the shareholders of ONI would own more than a majority of our outstanding common stock immediately after the merger. At the meeting, Mr. Brian Pasdach of Asanté Partners reviewed with our board a summary of the financial data of ONI.

Mr. McLaren reviewed for the board the current proposal from the European company, advising the board that it had not yet conducted due diligence of Novoste and that discussions had not been completed regarding certain elements of the proposal. The board, after review and discussion of the two alternatives, authorized management to proceed with the negotiation and analysis of both proposals.

On January 10, 2005, senior management from ONI and Novoste continued their discussions by telephone concerning the structure of a possible transaction, the time required to complete such a transaction and the need for a Novoste shareholder vote. The parties discussed due diligence items, preparation and filing of a proxy statement and the schedule for completing the audit of ONI's financial statements for 2004.

On January 18, 2005, the board of directors of ONI held a telephonic meeting in order to update the board on recent discussions with senior management of Novoste. The board discussed some of the due diligence being conducted by Novoste and authorized ONI management to provide Novoste with additional financial and market information.

On January 20, 2005, the board of directors of ONI held a telephonic meeting to continue discussions of the terms of a possible transaction with Novoste. The board discussed the aspects of a potential term loan from Novoste as part of the transaction. The board supported senior management's recommendation to continue exploring the possibility of a transaction with Novoste.

On January 24, 2005, representatives from First Albany and Asanté Partners held discussions regarding the timing of a possible transaction and the exclusivity of negotiations between Novoste and ONI. First Albany expressed ONI's concern that the uncertainty and the extended time necessary to solicit a Novoste shareholder vote would make it more difficult to raise capital from other sources if a transaction with Novoste did not receive shareholder approval. First Albany proposed that Novoste provide a bridge loan to address ONI's concerns and the parties discussed potential terms of such a loan. After these discussions, Asanté Partners discussed the possibility and potential terms of a bridge loan to ONI with Novoste senior management and forwarded draft terms to First Albany. Thereafter, ONI senior management drafted a revised letter of intent to be delivered to Novoste.

On January 24, 25, and 26, 2005, management of the European company conducted a due diligence review of our operations at our facility in Norcross, Georgia. The due diligence efforts involved an extensive review of information prepared by us in response to the European company's due diligence requests, along with meetings and discussions with our management and employees.

After these due diligence efforts, discussions continued between our and the European company's financial advisors regarding a potential transaction. Pursuant to these discussions and negotiations, the European company presented a revised proposal to us which provided for a tender offer at a cash price of \$0.60 per share of our common stock. We subsequently provided additional information to the European company to support a higher valuation for our common stock and the European company, after consideration of this information, increased its offer to a price of \$0.75 per share of our common stock.

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On January 26, 2005 the board of directors of ONI held a regularly scheduled meeting. At the meeting, ONI senior management presented the board with an update on three possible equity financing opportunities and an update on the discussions with management of Novoste. The ONI board of directors discussed the relative valuations they expected ONI would receive from each type of financing transaction and discussed the amount, interest rate and security that would be acceptable in connection with a bridge loan from Novoste. The ONI board of directors encouraged ONI senior management to continue to explore potential venture sources as well as a possible transaction with Novoste.



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In January 2005, we filed a Current Report on Form 8-K with the Securities and Exchange Commission to disclose that as part of our review of potential strategic alternatives, we had received inquiries from and had engaged in discussions with several companies potentially interested in a merger or business combination with us. We also disclosed that if a suitable transaction resolving our future on acceptable terms did not become available in the near term, we would need to consider other alternatives, which could include a shut down of our operations, and liquidation and dissolution.

On February 3, 2005, ONI delivered a revised letter of intent to Novoste. During the next week, ONI and Novoste, through their counsel, negotiated the terms of the letter of intent.

On February 11, 2005, the ONI board of directors met to discuss the revised letter of intent. At this meeting, ONI senior management again presented the strategic rationale and the financial implications of the proposed transaction. First Albany gave a presentation concerning the terms of the letter of intent, including the proposal that Novoste would provide ONI with a bridge loan at the time of signing of the merger agreement. After some discussion, the ONI board authorized management to enter into the letter of intent with changes to the provisions concerning the bridge loan and the liabilities associated with Novoste's wind-down plan. After the board meeting, the members of the ONI board not affiliated with Galen Partners met in executive session to discuss negotiations with the holders of ONI's Series A preferred stock in connection with soliciting their consent to a strategic transaction with Novoste and their waiver of certain preemptive rights and preferences. After a lengthy discussion, the group authorized Mr. Douglas Feick, a director of ONI unaffiliated with Galen Partners, to negotiate an exchange ratio with the holders of the Series A preferred stock which would be applicable in a Novoste transaction and which would fairly compensate the holders of ONI's Series A preferred stock for waiving their rights and preferences. Mr. Feick was a partner with Sage Hill Partners, an institutional investor in ONI which as of June 30, 2005 held approximately 193,798 shares, or approximately 2%, of the outstanding ONI Series A preferred stock.

Our board of directors met on February 12, 2005. The board's advisors, Hogan & Hartson L.L.P. and Asanté Partners, were present at the meeting. Mr. Novak advised the board of management's belief that the European company's per share price proposal was inadequate and also expressed concerns regarding the European company's ability to complete a transaction on terms acceptable to us and in a timely manner. In addition, Mr. Novak advised the board that in the course of discussions between Mr. McLaren and the financial advisors to the European company, Mr. McLaren had been informed that any revised offer from the European company would not be substantially higher than the one that had been most recently presented.

Management and Asanté Partners then discussed with the board the proposed ONI transaction. Mr. Novak described and discussed with the board the current proposal from ONI and the anticipated schedule for completing a transaction with ONI. He also reported to the board that a market research organization with whom we have worked in the past had been engaged to conduct a market survey relating to ONI's current dedicated-purpose magnetic resonance imaging system, the OrthOne, and physicians' satisfaction with that system. The market research firm had also assisted ONI in evaluating its follow-on product and assessing the market potential for this new product. In addition, Mr. Novak also explained to the board that Mr. Robert Wood, our then Vice President, Sales and Marketing, would engage in discussions with ONI sales and marketing personnel as part of our due diligence review of ONI. After further discussion of the ONI proposal with our management and the board's advisors, the board authorized Mr. Novak to enter into a letter of intent with ONI and to proceed with further due diligence efforts to determine the merits of the proposed transaction. Promptly after the meeting, we entered into a non-binding letter of intent with ONI regarding the proposed transaction. The letter of intent provided a basic description of the economic terms of the proposed transaction and included both confidentiality and exclusivity provisions. The term of exclusive dealings was initially set to expire upon the earlier of March 6, 2005 or the mutual written agreement of Novoste and ONI not to proceed with negotiations.

On February 14, 15, and 16, 2005, ONI management and its advisors conducted due diligence at our headquarters in Norcross, Georgia. The ONI due diligence team reviewed the information prepared by us in response to ONI's due diligence requests, toured our facilities and met with employees and management.



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Our board of directors met on February 21, 2005. The board discussed the current status of our VBT business and determined that the VBT business was no longer viable. The board authorized management to undertake a staged wind-down of the VBT business. The board determined that this decision was necessary to preserve our cash resources. The board also authorized a further reduction in our workforce. We filed a Current Report on Form 8-K with the SEC to report these developments.

On February 22, 23, and 24, 2005, members of our management and representatives from Hogan & Hartson L.L.P. and Asanté Partners conducted business, financial and accounting due diligence at ONI's corporate headquarters in Wilmington, Massachusetts. The due diligence efforts included a review of, and related discussions with ONI management regarding, ONI's financial statements and business plan, a tour of its manufacturing and administrative facilities and discussions with ONI employees and management. In addition, on February 23, 2005, Mr. Novak and representatives from Asanté Partners attended the American Academy of Orthopedic Surgeons trade show with representatives of ONI's sales team and talked to trade show participants about ONI and its product.

On February 25, 2005 counsel to ONI circulated the first draft of the merger agreement to us. On February 26, 2005, our senior management, counsel and financial advisor held teleconferences in which we discussed a number of business terms in the initial draft of the merger agreement, including, among other things, provisions regarding the payment of break-up fees in certain circumstances, the termination rights and no-shop obligations of the parties and provisions regarding the merger exchange ratios. On February 27, 2005, our counsel orally provided our first response to the draft merger agreement to ONI's counsel, and conveyed our positions on these business terms. During the week of February 28, 2005, our senior management and financial advisor communicated our comments regarding these issues to ONI and its financial advisor, and on March 2, 2005, scheduled a face-to-face meeting among Novoste's and ONI's senior management and respective financial and legal advisors for March 3, 2005.

On March 3, 2005, senior management of Novoste and ONI, along with our respective financial and legal advisors, met in the offices of Foley Hoag LLP in Boston, Massachusetts, to discuss these key business terms and review and negotiate the other terms of the proposed transaction and the related documentation. At this meeting, several of these issues were resolved in principle, and the parties agreed that ONI's counsel would circulate a revised draft of certain sections of the merger agreement based on the resolution of several matters discussed at the meeting, while our counsel would prepare comments on the remaining sections of the agreement.

Our board of directors met on March 4, 2005, to receive an update from our management and our legal and financial advisors on the status of the negotiations with ONI. Mr. Novak discussed with the board various issues currently being negotiated, including the valuation of our assets and liabilities, and the anticipated schedule for completing the proposed transaction with ONI. Mr. Novak discussed various valuation issues with the board and the proposed means to determine the percentage of ownership of the combined company by the current Novoste and ONI shareholders at the close of the transaction. Mr. Novak explained to the board that the ownership allocation would be based upon the amount of net cash assets that Novoste has at the time of closing and the number of orders for, and shipments of, ONI's OrthOne systems.

Also on March 4, 2005, the ONI board of directors met to receive an update on the previous day's negotiations with Novoste. Senior management informed the board that progress had been made in negotiating the terms of a potential business combination and that even though there was no agreement on financial terms, it appeared, based on recent discussions with Mr. Novak, that the ONI valuation would be based on an initial estimate of more than \$20,000,000. Mr. Kwolyk stressed to the board that there were still significant due diligence items under review, including contingent liabilities associated with the wind-down plan of the VBT business. The ONI board then authorized ONI's senior management, financial and legal advisors to negotiate definitive transaction documents to be presented to the board.

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On March 4, 2005, ONI and Novoste executed a letter agreement extending the exclusivity period in the letter of intent until March 16, 2005.

On March 8, 2005, counsel to ONI circulated a revised draft of certain sections of the draft merger agreement, and our counsel provided written comments on the remaining sections of the draft agreement. On March 11, 2005 and March 14, 2005, counsel to ONI responded with revised drafts of the proposed merger agreement. The negotiations surrounding the early drafts of the documents focused on several matters including the mechanism for determining the respective valuations of ONI and Novoste at closing and the resulting merger exchange ratios, the termination and non-solicitation provisions.

At a regular meeting of the ONI board of directors on March 17, 2005, ONI senior management updated the board on the results of ONI's due diligence review of Novoste. There was lengthy discussion regarding the detail of the Novoste wind-down plan for the VBT business and the adjustment mechanisms provided in the proposed merger agreement for the ONI and the Novoste valuations.

On March 23, 2005, counsel for Novoste circulated a revised draft of the merger agreement, an updated wind-down plan for the VBT business and a draft of a preliminary calculation statement under which Novoste and ONI would agree to a mechanism and process for determining our net cash assets at closing, including stipulated dollar values for several of our assets and liabilities.

Senior management of Novoste and ONI, along with our respective financial and legal advisors, met again on April 1, 2005 at the offices of Hogan & Hartson L.L.P. in Washington, D.C. During the course of the discussions and negotiations, various issues were resolved with regard to the merger agreement, including assigning valuation amounts for certain of our identified assets and liabilities, the methodology to be utilized to determine ONI's valuation and the establishment of valuation collars and termination rights for determining the respective ownership interests of the parties at the time of the transaction's closing. After the meeting, a revised draft merger agreement was prepared and distributed to the parties. Over the next four weeks, representatives of the two companies and their respective advisers negotiated the final terms of the merger agreement, our loan to ONI, ONI's promissory note to us, the stock purchase warrant to allow us to acquire shares of ONI's preferred stock and the voting agreement to be signed by our executive officers and directors. The parties also completed their due diligence analyses during this period. On May 5, 2005, attorneys for ONI and Novoste finalized the documentation concerning the respective valuations of the two companies. Following these negotiations, the management of the two companies agreed to recommend the transaction to their respective boards of directors.

The ONI board of directors met on May 11, 2005 and reviewed the proposed transaction. At that meeting, ONI's senior management and financial and legal advisors reviewed the terms and financial implications of the transaction and the exchange ratio, or consideration, to be received by the holders of ONI's common stock, preferred stock, stock purchase warrants and stock options. In addition, management provided their views of the transaction. Following extensive discussion and review of the transaction, the ONI board voted unanimously to approve the merger agreement.

On May 11, 2005, our board of directors met to review and consider the merger agreement, the proposed loan and the other transaction documents. The board received a presentation from Hogan & Hartson L.L.P. regarding the fiduciary duties and responsibilities of the board in connection with the transaction. Hogan & Hartson L.L.P. provided the board with a detailed review of the material terms and conditions of the merger agreement and related transaction documents. The board received a presentation and review of the ONI transaction by our senior management, including a summary of the due diligence performed by us on ONI and its business. Asanté Partners presented the results of its financial and valuation analysis of ONI and the proposed transaction.



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After discussion of the information presented, the board requested that our management arrange for a presentation to the board by ONI's senior management on May 13, 2005. Additionally the board was briefed by our management of the receipt on May 10, 2005 of a proposal by a third party to acquire all of our outstanding common stock by tender offer. Among other things, the proposal required a 30-day due diligence period, a minimum tender condition of 80% of our outstanding common stock in the tender offer and a 90-day exclusivity period. The proposal stated a tender offer price of \$0.90 cash per share. After discussing this development, the board authorized Mr. Novak to respond to the proposal and seek agreement on certain terms more favorable to our shareholders, including an increase in the per share purchase price to \$1.00, a reduction in the minimum tender condition to 50.1%, a break-up fee provision, reduced due diligence and exclusivity periods, and an agreement to commence the tender offer within nine days.

On May 12, 2005, the third party suitor responded to Mr. Novak's request and indicated that it was unwilling to increase its proposed purchase price, reduce the 30-day due diligence period, commence the tender offer by the requested date, or pay a break-up fee if the third party did not commence the tender offer. The third party suitor indicated that it would only commence the tender offer after completion of its due diligence review and the negotiation of a definitive merger agreement.

On May 13, 2005, ONI's senior management made a presentation to our board regarding, among other things, ONI's business, its product, its strategy and business plan, its competitors and the potential market for its product. During this meeting, our board questioned ONI's senior management on these various matters. After completion of the presentation, Mr. Novak updated the board on the third-party tender offer proposal. After discussion and due consideration, the board determined that the tender offer proposal contained too many contingencies and uncertainties to warrant further consideration and that the proposed merger with ONI provided more certainty of completion of a transaction.

On May 16, 2005, our board reconvened to consider the proposed merger agreement and loan to ONI. Mr. Novak updated the board on his recent discussions with various members of ONI management and its board of directors. Asanté Partners presented the final results of its financial and valuation analyses of ONI and the proposed transaction and delivered to the board its oral opinion, subsequently confirmed in writing, that as of that date, the merger consideration to be paid by Novoste in connection with the ONI merger was fair to Novoste from a financial point of view.

The board discussed the information presented by our management and financial advisors. After discussion and due consideration, the board unanimously concluded (with Mr. Shapiro recused from the matters) that the transaction with ONI was in the best interests of Novoste and its shareholders and approved the merger agreement and related agreements, including the loan to ONI in the amount of \$3 million.

On May 17, 2005, significant holders of ONI Series A preferred stock entered into a stockholders agreement with ONI in which they waived certain pre-emptive rights in connection with the merger and agreed to terminate other rights and preferences conditioned upon the closing of a merger with Novoste.

On May 17, 2005, the ONI board of directors executed a unanimous written consent directing the senior management of ONI to seek shareholder approval of the merger agreement and the transactions contemplated therein. On the same day, acting by written consent, the ONI shareholders voted to adopt the merger agreement and the related transactions. The holders of the ONI Series A preferred stock also voted to amend the ONI charter to eliminate provisions relating to the ONI Series A preferred stock dividends, conditioned on the closing of a merger with Novoste.

On May 18, 2005, we and ONI executed the merger agreement and related transaction documents, including the promissory note and stock purchase warrant, and, on May 19, 2005, we transferred to ONI the loan amount of \$3 million.



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**Recommendation of our Board of Directors and Reasons for the Merger**

At a meeting on May 16, 2005, our board of directors unanimously (with one director recused from the matters) determined that the merger and the merger agreement are advisable, fair to and in the best interests of our shareholders, approved the merger agreement, the share issuance and the two amendments to our articles of incorporation, and recommended that you vote in favor of the share issuance and the two amendments.

In reaching its determination to approve the merger agreement and the transactions contemplated thereby and to recommend that our shareholders approve proposals 1, 2 and 3, our board identified several potential benefits for us and our shareholders, including:

the combination with ONI would result in a combined company with a viable business product;

the combination affords our existing shareholders an opportunity for future value that the board believes is currently unavailable given our existing technology;

the potential for growth in ONI's specific business market segment of providing dedicated-purpose, high-field, extremity MRI systems; and

the commitment of ONI to complete the merger on an expedited basis.

Our board consulted with our management, as well as our financial advisor and legal counsel in reaching its decision to approve the merger agreement and the transactions contemplated thereby. The factors that the Novoste board considered include:

the benefits described above;

historical information concerning ONI's and our respective businesses, financial performance, financial condition, operations and management;

our management's view of ONI's and our current business prospects;

our management's view of the financial condition, results of operations and businesses of ONI and Novoste before and after giving effect to the merger and information regarding the merger's potential effect on our shareholder value;

reports from our management and legal, financial and accounting advisors regarding the results of the due diligence investigation of ONI;

presentations by ONI management regarding ONI's business, its technology, its product, its operations and its business plan;



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the opinion of our financial advisor, Asanté Partners, as to the fairness to us, from a financial point of view, of the consideration to be paid in the merger;

our board's belief that the terms of the merger agreement are fair and reasonable;

the terms and conditions of the merger agreement, including the conditions to closing, the termination fee payable to us under certain circumstances, and our ability to terminate the merger agreement for a superior proposal;

that the merger consideration consists of shares of our common stock and does not require the use of cash except for cash paid for fractional shares or upon the exercise of dissenters' rights by ONI's shareholders;

the qualification of the merger as a tax-free transaction for U.S. federal income tax purposes;

the provisions of the merger agreement for determining the composition of the board of directors of the combined company, and the fact that we will initially appoint four of the nine directors on the board and that Mr. Novak will be a nominee of ONI;

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that the merger is the culmination of a search for a strategic transaction that began over a year ago; and

the lack of other future business opportunities for us following the implementation of our wind-down of our VBT business.

Our board of directors also identified and considered various potentially negative factors in its deliberations concerning the merger agreement and the transactions contemplated thereby, including:

the limited operating history of ONI;

the risks related to the immediate and substantial dilution of the equity interests and voting power of our shareholders upon the share issuance and completion of the merger;

the limited public company experience of ONI management;

the risks related to the ability of ONI's current shareholders to significantly influence our business after the share issuance and completion of the merger;

the risk that the combined company may be unable to raise additional capital in the future;

the risk of future competition in ONI's business segment;

the risk that ONI may be unable to successfully implement its business strategy and growth plan; and

certain of the risks described above under "Risk Factors" beginning on page 13.

After due consideration, our board concluded that the potential benefits of the merger to our shareholders outweighed the risks associated with the merger.

Although not exhaustive, this discussion of the information and factors considered by our board comprises the material factors considered. In view of the wide variety of factors considered in connection with the board's evaluation of the merger and related transactions, our board did not quantify or otherwise assign relative weights to the factors described. Rather, our board made its determination based on the totality of the information it considered. Our board cannot assure you that any of the expected results, opportunities or other benefits described in this section will be achieved as a result of the merger.

**OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 1.**



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### **Opinion of our Financial Advisor**

Our board of directors retained Asanté Partners in April 2004 to act as our investment banking and strategic financial advisor to assist us in our efforts to implement strategic and financial alternatives. In that role, Asanté Partners has acted as our financial advisor in connection with the merger. At a meeting of our board on May 16, 2005 Asanté Partners rendered its oral opinion, subsequently confirmed in writing on May 16, 2005, that as of that date, and subject to and based on the various assumptions made, procedures followed, matters considered and qualifications and limitations of the review set forth therein, the merger consideration was fair to Novoste from a financial point of view.

**The full text of the opinion of Asanté Partners, dated May 16, 2005, which states, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Asanté Partners, is attached as *Annex B* to this proxy statement. You should read this opinion carefully and in its entirety. This summary is qualified in its entirety by reference to the full text of the opinion.**

**The Asanté Partners opinion was directed to our board and addressed only the fairness, as of the date of the opinion, from a financial point of view to Novoste of the merger consideration.**

The opinion of Asanté Partners did not address our underlying business decision to proceed with or effect the merger, the merits of the merger as compared to other alternatives potentially available to us or the relative effects of any alternative transaction in which we might engage, nor did it constitute a recommendation to any holder of shares of our common stock as to how such holder should vote with respect to the merger or any other matter. Asanté Partners was not asked to, nor did it, offer any opinion as to any term of the merger agreement or the form of the merger, other than as to the fairness, from a financial point of view, as of the date of the opinion, of the merger consideration to Novoste. In rendering its opinion, Asanté Partners assumed, with our board's consent, that each party to the merger agreement would comply with all the material terms of the merger agreement.

In arriving at its opinion, Asanté Partners, among other things:

reviewed a draft of the merger agreement dated May 9, 2005, including certain exhibits thereto;

reviewed publicly available information relating to Novoste including: the Annual Reports to Shareholders and Annual Reports on Form 10-K of Novoste for the fiscal year ended December 31, 2002 and the fiscal year ended December 31, 2003 and the Annual Report on Form 10-K of Novoste for the fiscal year ended December 31, 2004, Quarterly Reports on Form 10-Q, and current reports on Form 8-K of Novoste;

reviewed certain information prepared by or for ONI management, including, a Private Placement Memorandum, dated August 11, 2002; the audited financial statements of ONI for the three fiscal years ended December 31, 2004; internal unaudited financial statements of ONI for the three months ended March 31, 2005; orders and shipments for ONI products as of March 31, 2005 and a prospect list of potential orders dated May 5, 2005; presentations prepared by ONI management dated February 22, 2005 regarding ONI's business and its 5-year financial projections through fiscal 2009;

reviewed and discussed with representatives of a market research organization an evaluation of the orthopedic MRI imaging equipment market prepared by that organization, dated February 25, 2004;

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discussed with senior management of Novoste and ONI their respective companies' historical and current operations, financial condition, strategic objectives and future prospects (including Novoste's proposed wind-down plan);

reviewed a financial due diligence review of ONI prepared by an outside accounting firm on behalf of Novoste and dated March 7, 2005;

reviewed the historical prices and trading volumes of the common stock of Novoste;

visited the headquarters of Novoste and ONI;

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reviewed the pro forma impact of the merger on Novoste;

participated in discussions and negotiations among representatives of Novoste and ONI and their respective legal and financial advisors;

reviewed certain financial data for Novoste and ONI and compared such information with similar information for certain publicly traded companies which it deemed comparable;

reviewed certain mergers and acquisitions of businesses which it deemed comparable;

solicited interest from other parties in merging with or acquiring Novoste or its assets or in licensing products to Novoste; and

performed such other analyses and investigations and considered such other factors as it deemed appropriate.

In preparing its opinion, Asanté Partners assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to it, discussed with or reviewed by or for it, or that was publicly available. Asanté Partners did not assume any responsibility for independently verifying such information or undertake an independent evaluation or appraisal of any of the assets or liabilities of Novoste or ONI, nor did Asanté Partners evaluate the solvency or fair value of Novoste or ONI under any U.S. state, U.S. federal or any other applicable laws relating to bankruptcy, insolvency or similar matters. In addition, Asanté Partners did not assume any obligation to conduct any physical inspection of the properties or facilities of Novoste or ONI. With respect to the financial forecast information furnished to or discussed with Asanté Partners by Novoste or ONI, Asanté Partners assumed that all this information had been reasonably prepared and reflected the best currently available estimates and judgments of the management of Novoste or ONI, as applicable, as to the expected future financial performance of Novoste or ONI, as the case may be. With respect to legal or regulatory matters, Asanté Partners relied on the advice of Novoste's legal and regulatory advisors. Asanté Partners also assumed that the final form of the merger agreement would be substantially similar to the last draft that it reviewed.

We believe that the final form of the merger agreement was not substantially different from the draft reviewed by Asanté Partners.

Asanté Partners' opinion was necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information made available to Asanté Partners as of, the date of its opinion. Asanté Partners has no obligation to update, revise or reaffirm its opinion. Asanté Partners assumed that, in the course of obtaining the necessary consents or approvals (contractual or otherwise) for the proposed merger, no restrictions would be imposed that would have a material adverse effect on the contemplated benefits of the proposed merger.

*Financial Analyses*

At a May 11, 2005 meeting of the Novoste board of directors, and in connection with preparing its opinion for the board, Asanté Partners made a presentation of certain financial analyses of the proposed merger.

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The following is a summary of the material analyses contained in the presentation that was delivered to our board of directors. Some of the summaries of financial analyses include information presented in tabular format. In order to understand fully the financial analyses performed by Asanté Partners, the tables must be read together with the accompanying text of each summary. The tables alone do not constitute a complete description of the financial analyses, including the methodologies and assumptions underlying the analyses, and if viewed in isolation could create a misleading or incomplete view of the financial analyses performed by Asanté Partners.

The fact that any specific analysis has been referred to in the summary below and in this proxy statement is not meant to indicate that such analysis was given more weight than any other analysis; in reaching its conclusion, Asanté Partners arrived at its ultimate opinion based on the results of all analyses undertaken by it

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and assessed as a whole and believes the totality of the factors considered by Asanté Partners in connection with its opinion operated collectively to support its determinations as to the fairness of the merger consideration from a financial point of view. Asanté Partners did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis.

In arriving at its opinion, Asanté Partners made its determination as to the fairness, from a financial point of view, as of the date of the opinion, of the merger consideration to Novoste on the basis of the multiple financial and comparative analyses described below. The following summary is not a complete description of all of the analyses performed and factors considered by Asanté Partners in connection with its opinion, but rather is a summary of the material financial analyses performed and factors considered by Asanté Partners. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis. With respect to the analysis of publicly traded companies and the analyses of transactions summarized below, such analyses reflect selected companies and transactions, and not necessarily all companies or transactions, that may be considered relevant in evaluating Novoste, ONI or the merger. In addition, no company or transaction used as a comparison is either identical or directly comparable to Novoste, ONI or the merger. These analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading or acquisition values of the companies concerned.

The estimates of future performance of Novoste and ONI provided by the management of both Novoste and ONI in or underlying Asanté Partners' analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than those estimates. In performing its analyses, Asanté Partners considered industry performance, general business and economic conditions and other matters, many of which are beyond our or ONI's control. Estimates of the financial value of companies do not purport to be appraisals or reflect the prices at which companies actually may be sold.

The merger consideration was determined through negotiation between Novoste and ONI and the decision to enter into the merger was solely that of the respective boards of ONI and Novoste. The opinion and financial analyses of Asanté Partners were only one of many factors considered by Novoste's board in its evaluation of the merger and should not be viewed as determinative of the views of Novoste's board or management with respect to the merger or the merger consideration.

Asanté Partners assessed the value of the merger consideration by assessing the value of ONI and the combined company resulting from the merger using several methodologies, including an analysis at various prices, an analysis of future stock prices, a comparable company analysis using valuation multiples from selected publicly traded companies, a comparable transactions analysis using valuation multiples from selected transactions and certain discounted cash flow analyses, each of which is described in more detail in the summaries set forth below. Each of these methodologies was used to generate imputed valuation ranges that were then compared to the merger consideration.

Because the merger consideration is subject to variation based upon the amount of cash held by Novoste and the performance of ONI, Asanté Partners analyzed a range of possible outcomes. Asanté Partners performed certain analyses under each of three possible scenarios that were based on three sets of financial projections:

a case, referred to as the Base Case, which assumes steady revenue growth and cost growth through 2009;

a more positive case, referred to as the Upside Case, which assumes higher revenue growth and higher cost increases; and

a more negative case, referred to as the Downside Case, which assumes lower revenue growth and lower cost increases.



All three of these cases were based upon projections and estimates developed by ONI's and Novoste's management.

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In addition, Asanté Partners generated a range of possible pro forma ownership totals of the combined company by the Novoste shareholders after the merger by assuming our net cash assets would range from \$10 million to \$17 million and ONI's orders and shipments from January 1, 2005 through May 31, 2005 would range from 16 to 44. Asanté Partners viewed the resulting pro forma ownership totals and, based on projections by the management of both Novoste and ONI, selected two totals it deemed most likely to occur—a scenario under which Novoste shareholders would own 38.5% of the resulting company after the merger, referred to as the 38.5% Outcome, and a scenario under which Novoste shareholders would own 45% of the resulting company after the merger, referred to as the 45% Outcome. The 38.5% Outcome and 45% Outcome were then used for certain analyses as described below.

*Analysis at Various Prices.* In order to derive a range of implied equity value multiples for ONI, Asanté Partners performed certain analyses, based on historical information and projections provided by the management of both Novoste and ONI. Assuming share prices of \$0.80 to \$1.00 per share of Novoste common stock, Asanté Partners calculated the implied total enterprise value (on a fully diluted basis) of the merger, assuming the 38.5% Outcome and 16.3 million Novoste shares currently outstanding. Asanté Partners then calculated the ratio of the implied total equity value to (i) 2004 revenues and (ii) estimated 2005 revenues for each of the Base Case, the Upside Case and the Downside Case. The following table presents the results of Asanté Partners' analysis based on prices of \$0.80, \$0.90 and \$1.00 per share (dollar amounts in millions, except for purchase price per share):

	<u>\$0.80 per share</u>	<u>\$0.90 per share</u>	<u>\$1.00 per share</u>
<i>Total Enterprise Value as Multiple of:</i>			
2004 Revenue	2.2x	2.4x	2.7x
2005 Revenue (estimated):			
Base Case	1.2x	1.3x	1.5x
Upside Case	1.0x	1.1x	1.2x
Downside Case	1.8x	2.0x	2.3x

*Present Value of Future Stock Prices.* Asanté Partners also analyzed the level at which the combined company's common stock might trade in the future, after the merger, based on projections by the management of both Novoste and ONI and then-current market conditions. These prices are referred to as the future stock prices, which were then discounted five years to January 1, 2005 at assumed discount rates of 30%, 35% and 40%. These discount rates were based on Asanté Partners' judgment of the risks inherent in ONI's business and the industry in general. Estimated future stock prices were calculated based on (i) 2009 estimated revenue multiples ranging from 1.5x to 2.5x and (ii) 2009 stock price to earnings ratios, or P/E Ratios, ranging from 25.0x to 35.0x. Asanté Partners also assumed 16.3 million Novoste shares currently outstanding and a 35% tax rate. Asanté Partners calculated future stock prices for each of the Base Case, the Upside Case and the Downside Case under the 38.5% Outcome and the 45% Outcome.

Asanté Partners arrived at the following results under the 38.5% Outcome based on a range of multiples of 1.5x to 2.5x for estimated 2009 revenues and 25.0x to 35.0x for estimated 2009 P/E multiples. In the Base Case, this analysis implied an equity value range for the combined company's common stock of between \$0.66 and \$1.63 per share. In the Upside Case, this analysis implied an equity value range for the combined company's common stock of between \$1.06 and \$5.42 per share. In the Downside Case, this analysis implied an equity value range for the resulting company's common stock of between \$0.27 and \$1.27 per share. Asanté Partners compared these results to the price per share of our common stock before the announcement of the merger, which was \$0.86 per share.

For the 45% Outcome, Asanté Partners observed the following results based on a range of multiples of 1.5x to 2.5x for estimated 2009 revenues and 25.0x to 35.0x for estimated 2009 P/E multiples. In the Base Case, this analysis implied an equity value range for the combined company's common stock of between \$0.77 and \$1.92 per share. In the Upside Case, this analysis implied an equity value range for the combined company's common



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stock of between \$1.25 and \$6.33 per share. In the Downside Case, this analysis implied an equity value range for the combined company's common stock of between \$0.32 and \$1.50 per share. Asanté Partners compared these results to the price per share of Novoste's common stock before the announcement of the merger, which was \$0.86 per share.

*Comparable Companies Analysis.* In order to derive a range of implied values for ONI, Asanté Partners reviewed certain financial information of the following publicly traded companies that it deemed comparable to ONI:

CTI Molecular Imaging, Inc.	Hologic, Inc.
Intermagnetics General Corporation	Analogic Corporation
SonoSite, Inc.	Schick Technologies Inc.
Fonar Corporation	Digirad Corporation
Imaging Diagnostic Systems Inc.	Fischer Imaging Corporation
Del Global Technologies Corp.	DOBI Medical International Inc.

Asanté Partners selected this group from companies that are publicly traded medical imaging companies. No company used in the comparable companies analysis was identical to ONI. Asanté Partners performed this analysis to understand the range of multiples of revenue, earnings before interest and taxes, or EBIT, earnings and growth of these comparable companies based upon market prices.

Asanté Partners calculated certain financial ratios of these comparable companies based on the most recent publicly available information and consensus estimates of the Institutional Brokers Estimate System, including the multiples of:

enterprise value (calculated as equity value, plus debt less cash and investments) to the comparable company's revenues for the trailing twelve months ended March 31, 2005 and estimated revenues for the calendar year 2005;

enterprise value to EBIT of the comparable company for the trailing twelve months ended March 31, 2005 and estimated EBIT for the calendar year 2005;

P/E Ratios for the comparable companies using estimated earnings for the calendar years 2005 and 2006; and

The P/E Ratios for the calendar year 2005 for the comparable companies as a multiple of their projected long-term earnings per share growth rate.

In evaluating the multiples for the peer group, Asanté Partners made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Novoste and ONI. These other matters include the impact of competition on the business of ONI and the industry generally, industry growth and the absence of any material adverse change in the financial condition and prospects of ONI or in the industry or financial markets in general. Mathematical analysis, such as determining the average or median, is not in itself a meaningful method of using comparable company data.



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Asanté Partners then compared the multiples derived from the selected companies with corresponding multiples for ONI based on the analysis at various prices described above. This analysis indicated the following implied mean and median enterprise value and stock price multiples for the selected companies, as compared to the multiples implied for ONI based on the analysis at various prices:

	<b>Implied Multiples of Comparable Companies</b>	
	<b>Mean</b>	<b>Median</b>
<i>Enterprise Values as Multiple of:</i>		
Revenues		
Trailing Twelve Months ending 3/31/05	2.1x	1.8x
2005 Estimated	2.3x	2.6x
	<b>Implied Multiples for ONI from Analysis at Various Prices <sup>(1)</sup></b>	
	<b>Mean</b>	<b>Median</b>
2004 Revenue	2.4x	2.4x
2005 Revenue		
Base Case	1.3x	1.3x
Upside Case	1.1x	1.1x
Downside Case	2.0x	2.0x

(1) Assumes 38.5% outcome and 16.3 million Novoste shares outstanding. These multiples are the mean and median multiples derived from the analysis at various prices, which observed revenue multiples based on assumed Novoste stock prices ranging from \$0.80 to \$1.00. Please see the section above entitled "Analysis at Various Prices" for more information on the assumptions underlying this analysis.

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*Comparable Transactions Analysis.* Using publicly available information, Asanté Partners reviewed the multiples exhibited and control premiums paid in certain change of control transactions involving companies deemed comparable to ONI by Asanté Partners. The review focused on transactions announced between 2000 and 2004 involving medical equipment manufacturers where the transaction value was approximately \$200 million or less. Asanté Partners identified 15 transactions worth between \$7.1 million and \$200.7 million involving these comparable companies in which transaction multiples were available. Below is a list of these transactions:

<b><u>Date</u></b>	<b><u>Acquiror</u></b>	<b><u>Target</u></b>
June 2004	CTI Molecular Imaging, Inc.	Concorde Microsystems Inc.
May 2004	Intermagnetics General Corporation	MRI Devices Corporation
January 2004	OSI Systems, Inc.	Spacelabs Medical (unit of Instrumentarium Corp.)
December 2003	Intermagnetics General Corporation.	Invivo Corporation
September 2003	Dräger Medical AG & Co. KGaA	Air-Shields (unit of Hillenbrand Industries, Inc.)
April 2003	Invivo Corporation	Medical Data Electronics, Inc. (subsidiary of Viasys Healthcare, Inc.)
January 2003	Ferraris Group Plc	Del Mar Medical Systems LLC
December 2002	Quinton Cardiology Systems, Inc.	Spacelabs Burdick, Inc. (subsidiary of Instrumentarium Corp.)
March 2002	Instrumentarium Corp.	Spacelabs Medical Inc.
December 2001	Respironics, Inc.	Novamatrix Medical Systems Inc.
September 2001	GE Medical Systems (unit of General Electric Co.)	Imatron, Inc.
July 2001	GE Medical Systems (unit of General Electric Co.)	Kretztechnik AG (subsidiary of Medison Co., Ltd.)
October 2000	The Cooper Companies, Inc.	MedaSonic, Inc.
August 2000	GE Medical Systems (unit of General Electric Co.)	ELGEMS Ltd. (50% stake held by Elscint, Ltd.)
August 2000	Hologic, Inc.	Trex Medical Corp. (U.S. assets)

Asanté Partners performed this analysis to understand the range of multiples of revenue of these comparable transactions and estimate the comparable value of ONI.

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The analysis showed that the average multiple of trailing twelve months revenue for the comparable companies exhibited in the change of control transactions listed above as of date of the announcement of the transactions was 1.2x, the median multiple was 0.8x and the high and low multiples were 2.7x and 0.3x, respectively. Asanté Partners utilized these selected multiples after comparing the current market conditions to the market conditions in existence at the time of the comparable transactions, the size and diversification of operations of the comparable companies involved in the transactions and current trends in change of control transactions involving comparable companies. Asanté Partners then compared the implied multiples derived from the selected transactions with the multiples for ONI implied by the analysis at various prices described above:

	Implied Multiples for ONI from Analysis at Various Prices (1)			
	Mean	Median	High	Low
2004 Revenue:	2.4x	2.4x	2.7x	2.2x
2005 Revenue:				
Base Case	1.3x	1.3x	1.5x	1.2x
Upside Case	1.1x	1.1x	1.2x	1.0x
Downside Case	2.0x	2.0x	2.3x	1.8x

- (1) Assumes 38.5% outcome and 16.3 million Novoste shares outstanding. These multiples are derived from the analysis at various prices, which observed revenue multiples based on assumed Novoste stock prices ranging from \$0.80 to \$1.00. Please see the section above entitled "Analysis at Various Prices" for more information on the assumptions underlying this analysis.

*Discounted Cash Flow Methodology – 38.5% Outcome.* Using the 38.5% Outcome, Asanté Partners performed a discounted cash flow analysis of the combined company after the merger based upon each of the Base Case, the Upside Case and the Downside Case.

Utilizing projections provided by the management of both Novoste and ONI, Asanté Partners estimated ONI's annual unlevered free cash flows for the five years ending December 31, 2009. Based in part on current public market valuations, Asanté Partners assumed a range of terminal revenue multiples from 1.5x to 2.5x to calculate the value of ONI's terminal cash flows. Asanté Partners calculated the estimated present value of the annual unlevered free cash flows and terminal cash flows using a range of discount rates from 30% to 40% based on past transactions within the industry and Asanté Partners' judgment of the risk inherent in ONI's business and the industry in general. Based on this analysis, Asanté Partners calculated ONI's equity value from the Base Case to be \$16.0 to \$53.6 million, from the Upside Case to be \$42.5 to \$104.7 million and from the Downside Case to be \$4.0 to \$31.8 million.

Asanté Partners then derived estimates of the combined company's annual unlevered free cash flows for the five years ending December 31, 2009, with pro forma adjustments to reflect the addition of our net cash assets (estimated to be \$12.9 million for purposes of this analysis) to ONI's cash flows in the combined company after the merger. Asanté Partners observed a range of equity values for the combined company ranging from \$28.9 million to \$66.5 million for the Base Case, with resulting pro forma values per share of our common stock of \$0.68 to \$1.57 per share (assuming 42.4 million shares outstanding after the completion of the merger and 16.3 million shares of our common stock outstanding before the merger). These values compare to the price per share of our common stock before the announcement of the merger, which was \$0.86 per share.

*Discounted Cash Flow Methodology – 45% Outcome.* Asanté Partners also performed a similar discounted cash flow analysis of the combined company under the 45% Outcome utilizing the Base Case. Using the Novoste and ONI management projections contained in the Base Case, Asanté Partners estimated ONI's annual unlevered free cash flows for the five years ending December 31, 2009. Based in part on current public market valuations, Asanté Partners assumed a range of terminal revenue multiples from 1.5x to 2.5x to calculate the value of ONI's terminal cash flows. Asanté Partners calculated the estimated present value of the annual unlevered free cash flows and terminal cash flows using a range of



discount rates from 30% to 40% based on past transactions within

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the industry and Asanté Partners' judgment of the risk inherent in ONI's business and the industry in general. Based on this analysis, Asanté Partners calculated ONI's equity value from the Base Case to be \$16.0 to \$53.6 million.

Asanté Partners then derived estimates of the combined company's annual unlevered free cash flows for the five years ending December 31, 2009, with pro forma adjustments to reflect the addition of our net cash assets (estimated to be \$15.0 million for purposes of this analysis) to ONI's cash flows in the combined company after the merger. Asanté Partners observed a range of equity values for the combined company ranging from \$31.0 million to \$68.6 million for the Base Case, with resulting pro forma values per share of our common stock of \$0.85 to \$1.89 per share (assuming 36.3 million shares outstanding after the completion of the merger and 16.3 million shares of our common stock outstanding before the merger). These values compare to the price per share of our common stock before the announcement of the merger, which was \$0.86 per share.

While discounted cash flow analysis is a widely accepted and practiced valuation methodology, it relies on a number of assumptions including growth rates, terminal multiples and discount rates. The valuation derived from the discounted cash flow analysis is not necessarily indicative of ONI's present or future value or results, which could be significantly more or less favorable than such valuation.

*Miscellaneous.* Under the terms of its engagement, Novoste has agreed to pay Asanté Partners for its financial advisory services aggregate fees, including the fee for its fairness opinion, of \$270,000, which have already been paid, and a transaction fee of \$750,000, payable at the closing. Novoste also has agreed to reimburse Asanté Partners for expenses reasonably incurred in performing its services, including fees and expenses of its legal counsel, and to indemnify it and its related persons against liabilities, including liabilities under the federal securities laws, arising out of their engagement.

As described above, the opinion of Asanté Partners was one of many factors taken into consideration by our board in making its determination to approve the merger agreement. The foregoing summary does not purport to be a complete description of the analyses performed by Asanté Partners.

Novoste selected Asanté Partners as its financial advisor because Asanté Partners is a recognized investment banking firm specializing in the healthcare and medical equipment industry, including the segments in which Novoste and ONI operate, with substantial experience in similar transactions. Asanté Partners is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, strategic alliances, competitive bids and private placements. Asanté Partners is currently providing financial advisory services to Novoste and may continue to do so and has received, and may receive, fees for the rendering of such services.

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**TERMS OF THE MERGER AGREEMENT**

The following is a summary of selected provisions of the merger agreement. While we believe this description covers the material terms of the merger agreement, it may not contain all of the information that is important to you and it is qualified in its entirety by reference to the merger agreement. The merger agreement is attached as Annex A to this proxy statement and is considered part of this document. We urge you to carefully read the merger agreement in its entirety for a more complete understanding of the merger.

**Structure of the Transaction**

The merger agreement provides that ONIA Acquisition Corp., our wholly owned subsidiary, will merge with and into ONI, and ONI will be the surviving entity and become our wholly owned subsidiary.

**Merger Consideration**

*Conversion of Securities*

The merger agreement provides that, at the effective time of the merger, each share of ONI common stock and each share of ONI Series A preferred stock, except for dissenting shares, will be converted into the right to receive such number of shares of our common stock as is equal to a specified common stock exchange ratio and Series A exchange ratio, respectively.

The merger agreement further provides that, at the effective time of the merger, the outstanding and unexercised options and warrants to purchase shares of ONI common stock (whether or not vested) will be assumed by us and be converted and become options and warrants to acquire shares of our common stock. Each ONI option and warrant will be exercisable for a number of shares of our common stock equal to the number of shares of ONI common stock issuable under such option or warrant immediately before the merger, multiplied by the common stock exchange ratio. The per share exercise price under each option or warrant will equal the per share exercise price of the ONI common stock under such option or warrant before the merger, divided by the common stock exchange ratio. The outstanding ONI options and warrants will be factored into the calculation of the exchange ratio, even if they are not exercised before the closing.

As further described below, we anticipate that completion of the merger will result in the current holders of ONI's equity securities owning a majority of our common stock.

*Determination of Merger Consideration*

The total number of shares of our common stock issuable to the holders of ONI's capital stock and the holders of ONI options and warrants if the merger is completed will equal:

the total Novoste effective time shares, which is the number of shares of our common stock outstanding at the time of the merger, *plus* the number of shares of our common stock issuable upon exercise of options outstanding at the time of the merger held by our continuing directors or with an exercise price per share of \$2.89 or less;

*multiplied by*

the ONI valuation, which is explained below; and

*divided by*

the Novoste valuation, which is explained below.

As of the record date, we had [16,334,780] shares of our common stock outstanding and [193,000] shares of our common stock issuable upon exercise of options meeting the criteria described above.

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*The ONI Valuation*

The merger agreement provides that the ONI valuation will be \$20,000,000, subject to adjustment depending on the number of orders for OrthOne systems between January 1, 2005 and May 31, 2005 that are accompanied by a payment of at least 10% of the purchase price and that meet certain other standard requirements, and the number of shipments of OrthOne systems for which ONI recognized revenue under GAAP during this same period. Based upon these provisions of the merger agreement, the ONI valuation has now been set at \$20,000,000.

*The Novoste Valuation*

The merger agreement provides that the Novoste valuation will equal the amount of our net cash assets at closing, namely, the difference between the total value of our assets and our liabilities, as set forth on a statement agreed to by the parties at the closing. This statement will set forth our assets and liabilities at closing on a line-by-line basis, and will be in a form and will apply the same methodologies and principles, and stipulating the same dollar values, that have been agreed to by us and ONI. If we and ONI fail to agree on the final statement and the amount of our net cash assets within a specified period of time, each party will have the right to terminate the merger agreement.

The main categories of assets that will be taken into account, to the extent they are applicable, in determining the amount of our net cash assets at the closing are:

our unencumbered cash and cash equivalents;

the principal and interest outstanding under the loan we extended to ONI;

certain of our fixed assets;

our realizable accounts receivable; and

our projected revenue through August 2005.

The main categories of liabilities that will be taken into account, to the extent they are applicable, in determining the amount of our net cash assets at closing are:

operating costs associated with the continued implementation and execution of the wind-down plan after the closing;

costs and liabilities associated with the decommissioning of the AEA line of business and termination of related contractual relationships;

severance and change in control payments;

liabilities associated with pending litigation;

costs associated with termination of operations in foreign countries;

costs associated with the purchase of post-closing insurance for our directors and officers; and

our unpaid transaction expenses.

If the amount of our net cash assets at closing is between \$11,750,000 and \$13,250,000, the Novoste valuation will be fixed at \$12,500,000. If the amount of our net cash assets is less than \$11,750,000, then the Novoste valuation will be the actual amount of the Novoste net cash assets. If the amount of our net cash assets is less than \$10,000,000, ONI will have the right to either terminate the merger agreement or accept a Novoste valuation of \$10,000,000. If the amount of our net cash assets is greater than \$13,250,000 but less than the ONI

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valuation, then the Novoste valuation will be the actual amount of our net cash assets. If the amount of our net cash assets is equal to or greater than the ONI valuation, the Novoste valuation will equal the ONI valuation minus one dollar; however, we will have the right to pay a dividend to our shareholders in the amount, if any, by which the amount of our net cash assets exceeds the ONI valuation.

As of the date of this proxy statement, our board of directors believes that the amount of our net cash assets at the closing will be approximately \$12,500,000. Based on [16,334,780] shares of our common stock outstanding on the record date, and assuming that the value of our net cash assets at closing provides for a Novoste valuation of \$12,500,000, we currently expect to issue an aggregate of [22,794,189] shares of our common stock and to assume options and warrants to purchase an aggregate of [3,650,259] shares of our common stock if the merger is completed. Based on these assumptions, the current holders of ONI's equity securities would own approximately [58.3]% of the issued and outstanding shares of our common stock immediately after the completion of the merger, as well as options and warrants to purchase additional shares. The number of shares issuable to the holders of ONI capital stock, options and warrants, and such holders' combined ownership of our common stock, would increase if the amount of our net cash assets at closing is less than \$11,750,000, and decrease if the amount of our net cash assets at closing is greater than \$13,250,000.

## **Fractional Shares**

No fractional shares of our common stock will be issued at closing in exchange for shares of ONI capital stock. We will pay cash to ONI's shareholders in lieu of fractional shares.

## **Dissenters' and Appraisal Rights**

Our shareholders do not have any dissenters' or appraisal rights in connection with the merger.

Holders of ONI capital stock who demand and perfect appraisal rights in accordance with the Delaware General Corporation Law, and who do not withdraw or lose such appraisal or dissenters' rights before the closing, will not have their shares converted into our common stock. Instead, such holders of ONI capital stock will receive such consideration as may be judicially determined to be due to them with respect to such shares.

If the holders of 10% or more of the outstanding ONI capital stock (determined as if all shares of ONI Series A preferred stock had converted into ONI common stock) demand appraisal rights, we will not be obligated to complete the merger.

## **Effective Time of the Merger**

The merger will become effective upon the filing of a certificate of merger and other appropriate documents with the Secretary of State of the State of Delaware in accordance with the relevant provisions of the Delaware General Corporation Law. The certificate of merger will be filed as soon as practicable on or after the date of closing.

**Board of Directors of the Combined Company**

The merger agreement provides that immediately after the merger, our board of directors will consist of nine directors, five of whom have been designated by ONI and four of whom have been or will be designated by us. One of the five ONI designees is Alfred J. Novak, who is currently our chief executive officer and one of our directors and who will resign from his management position following the merger. One of the four Novoste designees is Stephen I. Shapiro, who is currently a director of both Novoste and ONI.

We have designated Judy Lindstrom, Stephen I. Shapiro and Charles E. Larsen as three of our appointed directors, and we will designate a fourth appointed director before the merger is completed. ONI has designated the following persons as its five appointed directors: Srin Conjeevaram, David Hable, Robert L. Kwolyk, Alfred J. Novak and Bruce F. Wesson. As a result, since Mr. Novak has been designated by ONI as one of its appointed directors, it is expected that four of the current seven members of our board of directors will remain as directors immediately after the closing of the merger. On the date of closing, in accordance with the merger agreement, we



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will deliver resignations from J. Stephen Holmes, Thomas D. Weldon and William E. Whitmer, and our board will increase the size of the board from seven to nine persons and appoint the four ONI designated appointees and our remaining designated appointee. We and ONI currently anticipate that the board of directors of the combined company will make the following appointments after the merger is completed:

Mr. Hable to serve as Chairman of the Board of Directors;

Ms. Lindstrom to serve as Chairperson of our Corporate Governance and Nominating Committee; and

Mr. Shapiro to serve as Chairman of our Compensation Committee.

We also expect that our fourth designated director appointee, who has not yet been determined, will be appointed by the board to serve as Chairman of our Audit Committee.

## **Executive Officers of the Combined Company**

The merger agreement provides that on the date of closing, we will deliver to ONI written resignations and releases from each of our executive officers. As a result, Mr. Novak will cease to serve as our President and Chief Executive Officer, Subhash Sarda will cease to serve as our Chief Financial Officer and Daniel Hall will cease to serve as our Vice President, Corporate Secretary and General Counsel. The merger agreement does not provide who will be appointed as our executive officers following the merger. We and ONI currently expect that after the merger is completed, Mr. Kwolyk will serve as our President and Chief Executive Officer, Darlene Deptula-Hicks will serve as our Executive Vice President and Chief Financial Officer, Dr. Peter B. Roemer will serve as our Senior Vice President and Chief Technology Officer and Ron Ramsey will serve as our Vice President of Sales.

## **Representations and Warranties**

The merger agreement contains various representations and warranties of Novoste, ONI and Merger Sub. The representations and warranties are generally reciprocal, such that Novoste and ONI are making substantially similar representations with respect to most matters.

*These representations and warranties have been made solely for the benefit of the parties to the merger agreement and are not intended to be relied on by any other person. You should rely on the disclosure in this proxy statement rather than the representations and warranties in the merger agreement.*

In addition, these representations and warranties are qualified by specific disclosures made to the other parties in connection with the merger agreement, will not survive completion of the merger and cannot be the basis for any claims under the merger agreement after the merger is completed. Moreover, they are subject to the materiality standards contained in the merger agreement, which may differ from what you may regard as material, and are made only as of the date of the merger agreement or such other date as is specified in the merger agreement.

**Conduct of Business Before the Closing of the Merger**

During the period between the signing of the merger agreement and closing, we agreed to conduct our operations solely as in accordance with our wind-down plan. The merger agreement provides that we may also engage in one or more asset sale transactions.

In addition, during this period, we and ONI agreed to refrain from taking specified actions without the prior written consent of the other party. See the merger agreement, which is attached to this proxy statement as Annex A, for further information.

**Indemnification and Insurance of Current Directors and Officers**

The merger agreement provides that after the merger, we and ONI will be obligated to honor our respective obligations under the existing indemnification agreements with our respective directors and executive officers. In addition, the merger agreement provides that, for a period of six years after the merger, our articles of

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incorporation and bylaws, and the certificate of incorporation and bylaws of ONI, may not be amended or otherwise modified in any manner adverse to the rights of any person who served as an officer or director of Novoste or ONI before the merger. During this six-year period, we are obligated to maintain in effect our existing officers and directors liability insurance policies (or substantially similar policies), with respect to claims arising from facts or events that occurred at or before the merger.

We expect to pay the premiums for this insurance coverage before the closing of the merger; if we do not, the premiums will reduce our net cash assets at the closing of the merger.

## **Agreement Not to Solicit Other Offers**

In the merger agreement, subject to the exceptions described below, we agreed that during the term of the agreement, we will not, and we will cause our directors, officers, employees, agents and representatives not to, directly or indirectly:

solicit, initiate, knowingly encourage or facilitate, or furnish non-public information in furtherance of, any inquiries or the making of any proposal with respect to any Novoste competing transaction, which is explained below;

negotiate, explore or otherwise engage in any discussions with any person (other than ONI) with respect to any Novoste competing transaction; or

enter into any agreement, arrangement or understanding requiring us to abandon, terminate or fail to consummate the merger or any other transaction contemplated by the merger agreement.

As used in the merger agreement, a Novoste competing transaction means any of the following:

any recapitalization, merger, consolidation or other business combination or financing involving Novoste or Merger Sub;

the acquisition of any capital stock of Novoste or Merger Sub or 5% or more of the assets of Novoste or any of its subsidiaries;

any acquisition by Novoste or Merger Sub of any material assets or capital stock of any person;

any liquidation of Novoste or Merger Sub; or

any combination of the foregoing.

However, the merger agreement provides that we and our board of directors may furnish information to, or enter into discussions or negotiations with, any person that makes a bona fide written proposal for a Novoste competing transaction which was not invited, initiated, solicited or knowingly encouraged, directly or indirectly, by us, if:

our board of directors determines, after consultation with our financial advisor, that the person has submitted a Novoste competing transaction proposal that has a reasonable likelihood of resulting in a Novoste superior proposal, which is explained below, and determines, after consultation with our outside legal counsel, that such action is required in order for our board of directors to comply with its fiduciary duties under applicable law; and

we promptly informs ONI in writing of the identity of the potential acquirer and the material terms of the proposed transaction.

We also agreed to inform ONI promptly of any related developments, discussions and negotiations with respect to any Novoste competing transaction.

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As used in the merger agreement, a Novoste superior proposal means any bona fide written proposal made by a potential acquirer to enter into a Novoste competing transaction, if as a result:

our shareholders would beneficially own less than 50% of the voting stock, common stock and participating stock of the combined entity; or

the transaction will result in the sale, transfer or other disposition of all or substantially all of our assets;

in each case where our board determines in its good faith judgment, based among other things on the advice of our financial advisor, that the transaction would result in a transaction more favorable to our shareholders from a financial point of view than the merger. In making this determination, our board must take into account all relevant factors, including any material contingencies for the transaction, whether the transaction is reasonably capable of being completed, and any proposed changes to the merger agreement that ONI may propose in response to the transaction. A Novoste competing transaction proposal will not be a Novoste superior proposal unless any required financing is committed or our board reasonably concludes that the financing is likely to be obtained on a timely basis.

In addition, the merger agreement also provides that our board of directors will not:

withdraw or modify, or publicly propose to withdraw or modify, in a manner adverse to ONI, the approval by our board of the merger agreement and the merger, the issuance of Novoste common stock under the merger agreement, the amendment to our articles of incorporation to increase our authorized common stock, and the amendment to our articles of incorporation to change our name;

withdraw or modify, or publicly propose to withdraw or modify, in a manner adverse to ONI, the recommendation by our board to our shareholders to vote in favor of the share issuance proposal, the share increase proposal, and the name change proposal;

approve or recommend, or propose publicly to approve or recommend, any proposal for a Novoste competing transaction;

cause us to enter into, or approve or recommend, or propose publicly to approve or recommend, or execute any letter of intent or any agreement relating to any Novoste competing transaction proposal, or agree to do any of the foregoing; or

submit any Novoste competing transaction proposal at any meeting of our shareholders for purposes of voting upon approval or adoption of the proposal.

However, the merger agreement provides that, before the adoption of the proposals described in this proxy statement, our board of directors may withdraw, amend or modify the approvals and recommendations described above if:

our board determines in good faith, after consultation with our outside legal counsel, that the action is required for our board to comply with its fiduciary obligations to our shareholders; and

our board provides ONI with at least five business days prior notice of its intention to do so.

If the reason that our board of directors intends to withdraw, amend or modify its approvals and recommendations is that it has determined that a Novoste competing transaction proposal is a Novoste superior proposal, then during the five business days following the notice to ONI, we will review any counter-proposal submitted by ONI to determine whether the counter-proposal is at least as favorable to our shareholders as the Novoste superior proposal from a financial point of view. If our board determines that it is, then we and ONI will amend the merger agreement so that the Novoste competing transaction proposal is no longer a Novoste superior transaction proposal.

ONI has agreed to be bound by substantially the same non-solicitation provisions.

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### **Loan to ONI**

Concurrent with the execution of the merger agreement, we extended to ONI an 18-month senior unsecured loan in the principal amount of \$3,000,000, bearing interest at a rate of 8% per year. Principal and interest on the loan will be due in November 2006. Under certain circumstances in which ONI terminates the merger agreement, repayment of the loan will accelerate at the time of termination. The amount of our net cash assets at closing will include the principal and interest outstanding under the loan at such time.

### **Warrant to Purchase ONI Series A Preferred Stock**

In connection with the \$3,000,000 loan, ONI granted to us a warrant to purchase up to 2,325,581 shares of ONI Series A preferred stock (which is convertible into ONI common stock), at an exercise price of \$1.29 per share. We can exercise the warrant either by paying cash or by surrendering the promissory note that evidences the loan. We may not exercise the warrant unless there is an event of default under the promissory note or the merger agreement is terminated. The warrant will expire upon completion of the merger or otherwise in November 2006. Upon termination of the merger agreement under some circumstances, the warrant will automatically terminate. For further discussion, see Termination of the Merger Agreement below.

### **Conditions to Complete the Merger**

The obligations of each party to complete the merger are subject to certain conditions, including:

the approval by our shareholders of the share issuance and the two amendments to our articles of incorporation;

no government orders or restraints seeking to restrain or prohibit the completion of the merger; and

that no more than 10% of the outstanding ONI capital stock (determined as if all shares of ONI Series A preferred stock had converted into ONI common stock) have demanded appraisal rights.

The obligations of ONI to complete the merger are subject to certain conditions, including:

the accuracy of our representations and warranties and performance of covenants and agreements by us;

the resignations of our non-continuing directors and releases and waivers of liability from Messrs. Novak, Hall and Sarda;

the absence of any material adverse effect on us;

the partial waivers by certain of our officers of change of control payments;

ONI's receipt of a legal opinion from counsel to Novoste;

ONI's receipt of a representation letter of Novoste regarding certain tax matters; and

the receipt of all required Novoste consents.

Our obligations to complete the merger are subject to certain conditions, including:

the accuracy of ONI's representations and warranties and performance of covenants and agreements by ONI;

the absence of any material adverse effect on ONI;

our receipt of a legal opinion from counsel to ONI;



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our receipt of all required ONI consents; and

the receipt of certification of ONI regarding ONI not being a U.S. real property holding corporation.

If the law permits, conditions to the completion of the merger may be waived by either ONI or us, as applicable.

**Termination of the Merger Agreement**

The merger agreement may be terminated at any time before the closing of the merger, either before or after the requisite approvals by our shareholders, by mutual written consent of the parties.

In addition, either we or ONI may terminate the merger agreement if:

the merger is not consummated on or before September 30, 2005, but this termination right is not available to a party whose action or failure to act breaches the merger agreement and is a principal cause of the merger not being completed by such date;

a governmental entity shall have issued an order, decree or ruling or taken any other action having the effect of prohibiting the merger;

the share issuance proposal or the share increase proposal is not approved by our shareholders;

the other party materially breaches any representation, warranty or covenant contained in the merger agreement and such breach is not cured within 30 days following written notice of such breach;

we or ONI receives and enters into an agreement with respect to a Novoste superior proposal or ONI superior proposal, as applicable; or

a dispute regarding the amount of our net cash assets at closing arises and cannot be resolved by the parties.

ONI may terminate the agreement if the amount of our net cash assets at closing is less than \$10,000,000, or if any of the following ONI triggering events occurs:

our board of directors or a committee thereof withdraws or modifies in any manner adverse to ONI its recommendation in favor of the approval of the share issuance and the two amendments to our articles of incorporation;

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we failed to include in this proxy statement our board of directors' recommendation in favor of the foregoing proposals, or our board of directors fails to publicly reaffirm that recommendation within 10 days of a request by ONI to do so;

our board of directors or a committee thereof approves or recommends a Novoste competing transaction;

we breach our non-solicitation obligations; or

a third-party tender or exchange offer for our common stock commences and our board of directors fails to send a statement to our shareholders within 10 days recommending rejection of the offer.

We may terminate the agreement if any of the following Novoste triggering events occurs:

the ONI board of directors or a committee thereof withdraws or modifies in any manner adverse to us its recommendation in favor of the adoption of the merger agreement and the merger;

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the ONI board of directors fails to publicly reaffirm that recommendation within 10 days of a request by us to do so;

the ONI board of directors or a committee thereof approves or recommends an ONI competing transaction;

ONI breaches its non-solicitation obligations; or

a third-party tender or exchange offer for securities of ONI commences and ONI's board of directors fails to send a statement to its shareholders within 10 days recommending rejection of the offer.

### **Fees and Expenses**

Generally, each party will pay its own fees and expenses incurred in connection with the merger agreement. However, the termination of the merger agreement under certain circumstances will result in either a termination of the ONI warrant or in an obligation to pay a fee.

The ONI warrant will automatically terminate if:

either we or ONI terminates the merger agreement, because either the share issuance proposal or the share increase proposal is not approved by our shareholders, and, within 12 months, we enter into an agreement to engage in a Novoste competing transaction;

ONI terminates the merger agreement because an ONI trigger event occurs;

ONI terminates the merger agreement because we materially breach a representation, warranty or covenant in the merger agreement and the breach is not cured within 30 days after written notice of the breach; or

we terminate the merger agreement to enter into an agreement with respect to a Novoste superior proposal.

ONI will be obligated to pay us a termination fee of \$500,000 if:

we terminate the merger agreement because a Novoste triggering event occurs; or

ONI terminates the merger agreement to enter into an agreement with respect to an ONI superior proposal.

If we terminate the merger agreement because ONI materially breaches a representation, warranty or covenant in the merger agreement and the breach is not cured within 30 days after written notice of the breach, ONI will be obligated to pay us the fees and expenses we incurred in connection with the merger agreement, up to a maximum of \$500,000.

**ONI Board and Shareholder Approval**

The board of directors of ONI has adopted a resolution approving the merger agreement and the merger and declaring them advisable. When ONI signed the merger agreement, certain shareholders of ONI representing a majority of the voting power of ONI's capital stock signed written consents approving and adopting the merger agreement and the merger. In these written consents, the shareholders also waived their rights to dissent from the merger and seek appraisal of the shares of ONI capital stock they own.

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**RELATED AGREEMENTS**

**Novoste Voting Agreements**

Concurrent with the execution of the merger agreement, our directors and executive officers entered into voting agreements (including irrevocable proxies) in which, among other things, each of them agreed to vote in favor of the share issuance and the two amendments to our articles of incorporation.

**MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER**

We expect the merger to qualify as a tax-free reorganization under Section 368 of the Internal Revenue Code. We expect that there will be no material federal income tax consequences from the merger for our continuing shareholders.

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**INTERESTS OF CERTAIN NOVOSTE AND ONI PERSONS IN THE MERGER**

**Change in Control Payments**

In May 2003, we entered into amended and restated termination agreements with the following executive officers: Alfred J. Novak, Andrew M. Green, Daniel G. Hall, Adam G. Lowe, Subhash C. Sarda, Susan D. Smith, Robert N. Wood, Jr., Gordon Snyder and Jeanne Marie Leahy. Each of the termination agreements provides for benefits in the event of a termination of the employment of the applicable executive officer after a change in control of Novoste. Each of the termination agreements had an initial term from the date of execution of the termination agreements through December 31, 2003. Each of the termination agreements is automatically extended each January 1 for a one-year term, unless notice not to extend the agreement is given not later than 12 months before such January 1. Each of the agreements has been extended through December 31, 2005. If a change in control (as defined in the termination agreement) occurs during the term, each termination agreement extends for 24 months even if such notice not to extend is given. Each executive officer who has entered into a termination agreement has agreed that following the termination of employment, if any, of such executive officer, he or she will be subject to a one-year non-compete and non-solicitation agreement with us.

Under the terms of each termination agreement, upon a change in control of Novoste and the subsequent termination of the employment of the applicable executive officer by us without cause or by the employee for good reason, the executive officer will receive benefits including the following:

a severance payment equal to three times (or, in the case of executive officers who have served for two or less full years as an executive officer of Novoste, two times) his or her annual salary and bonus, as calculated pursuant to the terms of the termination agreement;

a pro-rata portion of his or her target bonus for the year in which the change in control occurs;

total health care benefits for 18 months;

the use of office space or outplacement services for six months; and

reimbursement of specified legal fees and expenses.

In the event that any payments made by us to an executive officer in connection with the change in control would be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code, we are obligated to make whole the executive officer with respect to such excise tax.

On May 18, 2005, we entered into amendments to the termination agreements with each of these executive officers. Each amendment provides that in the case of a change in control of Novoste involving ONI or certain other parties, but only in such cases, the severance payment payable to the applicable executive officer currently equal to three times annual salary and bonus will be reduced as follows:

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to 1.75 times annualized salary (as calculated pursuant to the terms of the amended and restated termination agreements and the termination agreement amendments) for executive officers other than Alfred J. Novak, our President and Chief Executive Officer; and

to two times salary and performance bonus (as calculated pursuant to the terms of his amended and restated termination agreement and his termination agreement amendment) for Mr. Novak.

Our board of directors has determined that completion of the merger will constitute a change in control under the termination agreements, as amended. The employment of Ms. Smith, Ms. Leahy and Messrs. Green, Lowe, Wood and Snyder has been terminated. In addition, under the terms of the merger agreement, Messrs. Novak, Hall and Sarda will be resigning their employment positions as of the closing. As a result, the completion

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of the merger will result in change in control payments being due to each of these executive officers, in the following amounts:

<u>Name</u>	<b>Termination Payment</b>
	<b>Due After Merger</b>
Alfred J. Novak	\$ 989,912
Daniel G. Hall	\$ 341,250
Subhash C. Sarda	\$ 315,000
Andrew M. Green	\$ 131,250
Jeanne Marie Leahy	\$ 75,000
Adam G. Lowe	\$ 136,500
Susan D. Smith	\$ 123,750
Gordon Snyder	\$ 84,375
Robert N. Wood, Jr.	\$ 176,250

**Stock Option Waivers**

In connection with the merger agreement, each of Messrs. Novak, Hall and Sarda executed a waiver providing that all of his Novoste stock options will terminate automatically upon the completion of the merger.

**Board Compensation**

As discussed in the section entitled "Approval of Issuance of Shares in the ONI Merger - Terms of the Merger Agreement - Board of Directors of the Combined Company," Ms. Lindstrom and Messrs. Novak, Larsen and Shapiro will remain as our directors after the completion of the merger. We and ONI anticipate that after the completion of the merger, Mr. Novak will receive a restricted grant of 40,000 shares of our common stock, and Ms. Lindstrom and Messrs. Larsen and Shapiro, as well as our one and ONI's four additional appointees to the combined company board, will each receive a restricted grant of 20,000 shares of our common stock. It is currently anticipated that non-employee directors of the combined company will continue to receive annual restricted grants of not less than 20,000 shares of our common stock as compensation for board service.

In addition, we and ONI anticipate that non-employee members of the combined company board will receive the following compensation:

<b>Annual Retainer:</b>	
Chairman of the board	\$ 100,000
Chairman of the audit committee	\$ 15,000
<b>Board Meeting Attendance Fees (in-person):</b>	
Non-employee directors	\$ 2,000
Non-employee directors attending by telephone	\$ 500
Telephonic Board Meeting Attendance Fees	\$ 1,000
<b>Committee Meeting Attendance Fees:</b>	
Chair	\$ 1,500
Committee member	\$ 1,000
<b>Telephonic Committee Meeting Attendance Fees:</b>	



Chair	\$ 1,000
Committee member	\$ 500

**Agreement with David Hable**

We and ONI have agreed to retain Mr. Hable as the Chairman of our board of directors after the merger. If Mr. Hable remains Chairman of the board of directors, we expect that he will receive approximately \$100,000 annually as a retainer. Mr. Hable is expected to spend two days per week working with the combined company in his capacity as Chairman.

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**PRO FORMA SECURITY OWNERSHIP OF NOVOSTE AFTER THE MERGER**

The following table provides information, after giving pro forma effect to the merger, with respect to the anticipated beneficial ownership of our common stock by: